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T.R.  
XVII

Canada, Cooperative, Roy. Comm. on

( ROYAL COMMISSION )  
ON  
( CO-OPERATIVES )

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1945

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PROCEEDINGS  
(OFFICIAL REPORT)

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VOLUME No. XXVI

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DATE April 25, 1945

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Mr. Vaughan





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ROYAL COMMISSION ON COOPERATIVES

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The Commission appointed to inquire into the present position of cooperatives in the matter of income and excess profits tax, organization and business methods and operations, and the comparative position of persons engaged in business directly competitive therewith, met in Ottawa, on Wednesday, April 25, 1945.

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PRESENT:

The Hon. Mr. Justice ERROL M. McDOUGALL, Chairman

B. N. ARNASON	)	
G. A. ELLIOTT	)	
J. M. NADEAU	)	Commissioners
J. J. VAUGHAN	)	

Eugene T. Parker, K.C.	Counsel
Roger Brossard	Associate Counsel

Major H.D. Woods)	Associate
J. A. Chapdelaine)	Registrars

Colonel G.W. Ross	Executive Secretary
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APPEARANCES:

R. H. Milliken, K.C.	Saskatchewan Cooperative Producers Limited, (Saskatchewan Wheat Pool)
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M. M. Porter	)	Alberta Wheat Pool
Ben. S. Plumer	)	" "

H. S. Searth	)	Manitoba Pool Elevators
W. J. Parker	)	" "

George Church	President United Farmers of Alberta
---------------	--

G. H. Steer	)	United Graingrowers Limited
H. L. Griffin	)	" "
J. E. Brownlee	)	" "

W. H. Howard, K.C.)	Northwest Line Elevators
Cecil Lamont	" "
W. P. Fillmore	" "

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ROYAL COMMISSION ON CO-OPERATIVES

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Ottawa, Wednesday, April 25, 1945.

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Ottawa, Ontario,  
Wednesday,  
April 25, 1945

The commission met at 10 a.m.

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MR. PARKER: For the benefit of counsel present, Mr. Chairman, I should like to ascertain what the commission's plans are for the week-end. I understand that it is definitely not the intention of the commission to sit on Saturday. It would appear that there is no possible chance of finishing the grain inquiry this week, so that it will have to run into next week. I do not know how the commission feels about it, but we have been going at top speed for some time and perhaps it would be a good idea to take Friday off. If that is at all in the minds of the commission, I suggest that counsel might be glad to know exactly what the plans are.

THE CHAIRMAN: If it does not greatly inconvenience counsel, I should think that arrangement would be desirable. The strain is beginning to tell a bit on everyone, I think. We cannot finish this week. Is there any reasonable ground for going on on Friday? Perhaps it might be advisable to take Friday as well as Saturday off. However, we are at the disposal of counsel and if that does not meet with general approval we will go on. What do you think, Mr. Howard? It is obvious that your case cannot come on this week.

MR. HOWEARD: We have two witnesses coming here and we have warned them to be present on Monday. If you do not sit on Friday they will not be required until later. My position is probably the same as that of other counsel and the members of the board. I think that the sooner we get through the better we shall all like it, but I am not prepared to insist upon the commission sitting on





Friday. I fancy, Mr. Chairman, you are near the end of your resources, your patience and your strength.

THE CHAIRMAN: Not our patience. What do you think, Mr. Francis?

MR. FRANCIS: My lord, Mr. Good, the president of the Cooperative Union, is to be recalled and subjected to cross-examination, and in view of other engagements he has, he is anxious to be heard before Tuesday night of next week. We are not suggesting that the commission should meet on Friday or Saturday, but we should be very glad if an arrangement could be made whereby Mr. Good can be heard before Tuesday night next. That would be greatly appreciated.

THE CHAIRMAN: I should think that could be arranged. Let me make it clear that we are perfectly free to sit on Friday. Mr. Fillmore, what are your ideas? We are proposing not to sit on Friday.

MR. FILLMORE: Personally I like the idea.

THE CHAIRMAN: Mr. Porter?

MR. PORTER: I am perfectly satisfied.

THE CHAIRMAN: Mr. Steer?

MR. SPEER: I am here for a couple of weeks. It matters not.

THE CHAIRMAN: Shall we decide, then, that we will not sit on Friday? After to-morrow's hearing we shall adjourn until Monday morning. There being no objections, that is the understanding.

MR. SCARTH: We shall be going on, I hope, to-morrow. I rather hope that we shall finish to-morrow night, but I am in the hands of Mr. Fillmore. If I have his cooperation I believe we shall get through and avoid all unnecessary difficulty. I do not anticipate it will take very long. I am still an optimist.





MR. HOWARD:: There are varieties of cooperation of which we approve and so we will do our best.

MR. PARKER: We will now proceed with the Alberta brief:

Alberta Wheat Pool

MR. PORTER: My lord and gentlemen, I am appearing for the Alberta Wheat Pool. The brief has been submitted. The first sixteen pages deal with the history of the development of grain handling in the west and their purpose in the brief is to show the background in farm movements which led to the development of the cooperative effort. They cover twenty-three or twenty-four years and cover that period as a summary, and I suggest that they are worthy of examination if one is to get the proper setting of the causes that led to the springing up of this cooperative movement. A study of the period indicates that the grower exhausted, over a period of twenty-three years, his attempt to meet conditions by legislative action. He had government ownership of elevators in Manitoba and farmer ownership of elevators and stock ventures in the other provinces, and he came finally to the cooperative idea as a means of dealing with his problems. The first sixteen pages, I think, summarize the history of the movement leading to these conclusions.

I propose to call Mr. Plumer, who is chairman of the board of directors of the Alberta Wheat Pool. I have with me Mr. R. D. Purdy, its manager, whom I propose to submit to deal with any operating questions which it may be necessary to go into. Mr. Morrison, the auditor, is with us to facilitate the work of the commission auditors. I think it will be necessary and probably useful to read the brief, but from its nature it will be apparent that reference will have to be made to the documents which are attached as exhibits





if the commission is to have a clear understanding of them. Mr. Plumer is chairman of the board of directors of the Alberta Wheat Pool.

THE CHAIRMAN: Will that appear on the record by way of testimony?

MR. PORTER: The manner of his election will appear as we proceed.

BEN.S. PLUMER,

a witness called and duly sworn ,  
testified as follows:

BY MR. PORTER:

Q. You are chairman of the board of directors of the Alberta Wheat Pool?      A. Yes.

Q. And you are a farmer?      A. Yes.

Q. Carrying on farming operations at Bassano?  
A. Yes.

Q. How long have you been there?      A. For thirty-two years.

Q. Will you proceed to read the brief?

THE WITNESS:

"Wheat growing in Western Canada had its beginning as far back as 1812, along the banks of the Red River, where Winnipeg now stands.

"In the year 1886, with the inauguration of the Canadian Pacific Trans-Continental Service and the institution of the Federal Grain Inspection at Winnipeg, the initial facilities for export service became available. It was not until the very turn of the century, however, that wheat growing in western Canada began to expand on the road to its present development.

"The wheat acreage in western Canada in 1901 was two and one-half times that of 1891, the yield of 1901 being





63,000,000 bushels. Grain crops in western Canada ripened late in the year and an attempt was made to sell the crop and move it to the Lakehead before the close of navigation. The development of transportation facilities did not keep pace with production. Storage at the point of shipment was non-existent or inadequate. Few farmers had granaries on their farms. All farmers had obligations to meet which they could only pay by marketing the crop.

"To relieve the acute congestion of grain on its transportation facilities, the Canadian Pacific Railway offered inducements to attract capital into providing initial storage and loading facilities. The company offered any person erecting at any shipping point a standard elevator with not less than 25,000 bushels capacity, equipped with loading machinery, special concessions. These took the form of a free lease of a site on the railway's property and an agreement not to allow cars to be loaded from flat warehouses or from farmers' wagons, or otherwise than through these elevators, at each point where a standard house was erected.

"These monopoly privileges and the rising volume of grain production led to the building of standard elevators at every shipping point of importance, the majority belonging to a few grain handling companies or milling concerns. While these facilities did benefit the farmers, a feeling developed that the advantages were more than off-set by the disadvantages associated with the monopoly condition of operation given to the elevators. The grower could no longer load his grain from his wagon on car or track for consignment to Winnipeg or for terminal storage. He was bound to store his grain with the local elevator under its own conditions or sell his grain to





its operator on terms which denied him the benefit of competition.

"Growers came strongly to resent the alliance of railway and line elevator companies, particularly as the elevator companies became increasingly dealers in grain. At points where a single elevator existed, the seller of wagon lots had virtually no alternative but to accept the price, the grade and the dockage the operator offered. Moreover, even at points where there was more than one elevator, the farmers' experience indicated that there was some agreement between the operators about price. There were charges of over-docking and short weighing, even at competitive points.

"While some attempt was made to meet the condition by farmers clubbing together to build standard elevators at some points, the farmers (mainly homesteaders lacking capital) were not able to carry any such programme to an extent necessary to have any major effect.

"The grievance of the growers expressed itself politically in a bill introduced into the federal parliament in 1898, 'To regulate the shipping of grain by railway companies in Manitoba and the Northwest Territories.' While the bill was defeated, it did lead to some alleviation in the railway companies' policy.

"The nature and extent of the complaints made in the house, however, led the government of the day to appoint a royal grain commission, which reported in 1900 that the complaints of the western farmers were generally well founded and recommendations were made for relief.

"The Manitoba Grain Act emerged from the session of 1900, based largely on the representations of that Commission. It involved a far-reaching system of regulation





of railways and elevators in the interests of grain growers, and provided a permanent administrative official to whom farmers might forward complaints directly.

"While the new act was hailed as an Agrarian Magna Charta, it was soon found that like most attempts to regulate by law it did not fill the need.

"The real alternative to marketing through elevators which the act provided was the privilege of loading over the platform. This enabled the farmer to send his grain to Winnipeg where it secured government grade and dockage and was sold on the basis of spot prices or stored in the terminal at Fort William, to be sold by the farmer at a time when the market suited him.

"But the legal right to load over the platform was of little value to the farmer because he could not get cars. Indignation meetings and conferences were held throughout the west and the Territorial Grain Growers Association was formed in 1901 by western farmers. Representations were made to Ottawa and the early provisions of the car order book were put in the statute.

"It became apparent, however, again that legislative enactment did not bring the desired relief. The Scintaluta case had to be fought and won before the railway began to carry out the provisions of the act requiring it to distribute cars strictly in accordance with the applications in the car order book.

"The success of the efforts of the Territorial Grain Growers' Association, in securing legislative relief for the farmers, led to rapid growth in farm organizations. Continued bad conditions, particularly with respect to grain standards of inspection led to another royal grain commission in 1906 and 1907. By this time



a feeling had developed that legislative action alone could not cure the ills which the monopoly of elevator companies imposed.

"A proposal for the creation of a farmer-owned elevator company crystallized in a meeting at Scintaluta in January, 1906, when it was decided that the Grain Growers Grain Company Limited should be formed. While the Company was to be organized on a joint stock basis, some cooperative principles were to prevail in its control and operation. Stockholders were to be composed of farmers exclusively and no person could hold more than four shares. No shareholder could have more than one vote and proxy voting was not allowed.

"The young company was not long under way when its nominee on the Winnipeg Grain Exchange was called before the council of that institution and subjected to questioning regarding the actions of the company because of the issuance of a circular stating its intention to distribute its net profits to farmer shippers on a patronage basis. This was interpreted by the exchange as offending its rule against splitting profits with the shipper and in November, 1906, the company was expelled from the exchange and from all trading privileges. Notice was posted to all members of the exchange declaring that any firm dealing with the company would be subject to penalties.

"Appeals were made both to the courts and to the legislature to endeavour to regulate the grain exchange. The young company was unable to carry on the fight and in December, 1906, cancelled its resolution to distribute its earnings on a patronage basis. Even this did not lead to its re-instatement in the exchange and it was not until 1908, after long and continuous litigation and hearings





by royal commissions and legislative committees that the Grain Growers Company was re-admitted on its formal undertaking to abide by the rules of the exchange which denied it the right to pay a patronage dividend.

"While the farmers had thus gained a place in the established grain trading system, the system itself remained unchanged.

"But the Grain Growers Grain Company was functioning merely as a marketing agency and was not supplying any elevator service. The demand for elevator service in Manitoba led the government of that time to embark upon a plan of buying and building elevators which were operated by a commission, set up in 1910. These elevators were entirely dependent for their revenue on storage and handling charges and did not succeed in earning enough revenue to stay in business with the result that by 1912 they were leased to the Grain Growers grain company. That company had the greatest difficulty in operating this line competitively and incurred losses for the first two years of business.

"The lease was continued and a guarantee was given by the government to enable the company to finance the purchases of grain at country elevator points and by 1916 the company was operating the venture at a profit.

"In 1910 the government of Saskatchewan appointed a commission of inquiry to evolve a plan for the construction of elevators in Saskatchewan. This commission reported against the government construction and purchase of elevators. It recommended that the problem should be disposed of by the farmers themselves organizing on a cooperative basis, with assistance in the matter of finance by a provincial government loan.





"The plan called for the maximum amount of local control consistent with ownership by the whole body of shareholders and management through a central board of directors. The company got under way in 1911.

"In Alberta, where wheat growing had at that time a less conspicuous place in agricultural economy, the demand for government ownership of elevators was not as general or insistent as in Manitoba and Saskatchewan, but the demand did lead to the Alberta Cooperative Elevator Act in 1913 which provided for the formation of a farmer owned and controlled company, financed by means of direct government loans to the company to the extent of 85 per cent of the cost of construction or acquisition.

"The act contained provision for the disposition of company revenues on a patronage basis, subject to the following priorities: Annual payments due the province; all current liabilities; and such reserve appropriations as the directors should deem advisable.

"The Alberta Cooperative Elevator Company organized on this basis got under way in 1931. The Alberta Company received very material aid from the Grain Growers grain company which stood in somewhat of the relation of a business guardian to the new venture. The new company had financial difficulties in getting under way, due in part to its expansion in livestock and farm supply trading operations and it was not until 1915 that a dividend was paid by the company.

"A like demand for the development of government-owned terminal elevators was being pressed side by side with the demand for country elevators, owned by the government or farmers. During the tour of Sir Wilfred Laurier in the summer of 1910 memorials were presented



urging the government to acquire terminal elevators and make effective provision against the mixing of wheat. These, and kindred demands calculated to reduce the cost of production in the west, resulted in grain growers' associations sending to Ottawa some 500 western grain growers and 300 Ontario grangers, in what has become known as the 'Siege of Ottawa'. The whole deputation marched to the House of Commons and presented to the cabinet and members successive resolutions and memorials dealing with many subjects, amongst them the federal acquisition and operation of terminal elevators. The memorial expressed the conviction that no amount of supervision or inspection could effectually prevent manipulation in the terminals so long as they were owned and operated by private interests which were benefited by such practices.

"The government responded by introducing the Grain Bill of 1911 which became The Canada Grain Act of 1912 under which the Board of Grain Commissioners for Canada was created. The government declined to go into the nationalization of existing terminals but did undertake to regulate the ownership and supervision of terminal elevators, the mixing of grain and to build and operate government terminals.

"The act itself greatly expanded federal government regulation of the grain trade. The supervision and regulation under the chairmanship of Doctor McGill and the competition of farmer-owned and government-owned agencies brought some measure of relief to the farmers.

"In 1917 the Grain Growers grain company and the Alberta Farmers' Cooperative Grain Company formed the United Grain Growers Limited which did not include the





Saskatchewan Cooperative Grain Company. Until the time of the formation of the pools, the Saskatchewan Cooperative Elevator Company expanded within but confined its business to Saskatchewan, while the United Grain Growers Limited expanded in all three western provinces. In the meantime the dominion government built interior government elevators at inspection points in western Canada. By the end of the world war the two great farmer-owned companies had attained a position of competitive ascendancy in the grain trade, handling in the season of 1918-1919 one-fourth of all grain inspected in the western division. The operation of these companies brought benefits to western grain growers by reducing the dependence of producers upon private middlemen for grain handling, terminal facilities and export markets.

"They had set up a competitive condition which improved local market conditions and lessened discrimination, increasing marketing returns to growers generally. The annual grants made by the companies to other farm organizations had been largely instrumental in strengthening the effective influence of the latter in obtaining provincial and federal legislation advantageous to farm interests. But the profits realized through their participation in the business had been returned only to such of the farmers as were shareholders.

"In the organization of these companies, the distribution of earnings on a patronage basis had been contemplated. In the federal incorporation in 1911 the Grain Growers Grain Company had obtained the inclusion in its charter of a provision entitling it to pay patronage dividends. Likewise the acts incorporating the Alberta and Saskatchewan Elevator Companies provided for





distribution up to fifty per cent of the surplus either among individual patrons or among shareholders' locals, according to the volume of business contributed.

"In this state of affairs an increasing number of voices were heard, questioning the cooperative character of the farmers' companies and charging them with being operated for the shareholders alone. An interest was naturally developed in the non-stock, non-profit type of pooling, developing in California, which seemed to offer a more adequate form of agricultural cooperation.

"The pooling idea was brought home to every grain grower in western Canada during the operation of the Canadian Wheat Board in 1919 and 1920. The excellence of this operation and the collapse of wheat prices following dissolution of the board and the restoration of speculative trading combined to introduce a new phase in the history of the grain growers' attempt to cooperate in western Canada. Henceforth the pooling method illustrated by wheat board operations became the objective of the majority of prairie farmers.

"With the dissolution of the weath board in 1920 a demand for the creation of a wheat board modelled on the same lines as the one just dissolved asserted itself and continued to grow. Premier Meighen in 1921, while opposed to any renewal of government marketing monopoly under a wheat board, declared he was prepared to establish a wheat board to market wheat on a voluntary pooling basis. In the new parliament of 1922, an act was passed creating the Canadian Wheat Board on a compulsory basis on condition that the act would become effective when the provinces conferred upon the agency such powers possessed by the board of 1919, as in peace time came within



provincial jurisdiction.

"Special sessions of the Alberta and Saskatchewan legislatures were called in July and the necessary ancillary legislation given with a minimum of dissent in those houses. In accordance with the request of the federal government to nominate men suitable for appointment as chairman and vice-chairman of the board, the premiers of the concurring provinces invited its former officers to act. These gentlemen were unwilling to assume the responsibility of administering a board under the restrictive powers conferred by the act, Mr. Riddell, the former vice-chairman, explaining that satisfactory results could not be obtained because the act excluded the sale and export of flour and the sale and control of the transportation of wheat from the powers of the board, and did not include all western provinces.

"Premier Dunning of Saskatchewan proposed as an alternative solution the formation of a farmers' export company which called for the substitution of a voluntary cooperative pool for the compulsory government board sought by grain growers. The refusal of the Manitoba legislature to enact the ancillary legislation to give effect to the federal wheat board meant the continuance of trading in futures on the Winnipeg grain exchange. Premiers Dunning and Greenfield were still unable to secure the cooperation of Manitoba or the proper personnel to undertake the operation of the board and thus for the fourth successive year efforts to secure the re-establishment of a compulsory wheat board failed.

"When the futility of the attempt to get a compulsory wheat board functioning under the legislation seemed clear, the idea of a cooperative wheat pool on a voluntary





contract basis was revived, and the directorate of the United grain growers took the initiative in the direction of cooperative action by asking for a meeting of the western section of the council of agriculture in 1923, to consider what steps should be taken in view of the failure of the two premiers to get the wheat board under way. Their paper expressed the view that farmers in the prairie provinces will be wise now to turn their efforts toward the establishment of a voluntary pooling system under their own control.

"At the meeting of the council of agriculture in Winnipeg on the 4th of July, 1923, the United Grain Growers' representatives submitted a memorial offering an alternative to the abandoned wheat board plan. This proposed a voluntary contract pool, terminable on fair notice and providing for initial advances and participation distribution as in the case of the Canadian Wheat Board.

"The United Grain Growers proposed that the two farmer companies might advance the funds for the first year's operations and place their elevator and handling facilities at the disposal of the pool on much the same basis as those in use by the wheat board in 1919-20. In this the proposal differed from the earlier Dunning suggestion by which the farmer companies would have assumed the responsibility of jointly initiating and operating a pool of their own.

"No action was taken on this proposal for the creation of a single inter-provincial pool, the decision being to leave the matter of wheat pool organization to separate provincial associations whose representatives should meet again on July 23. The sentiment in favour of provincial initiative was most pronounced in Alberta where, even



before the meeting of the Council of Agriculture, at which the United Grain Growers' proposal was submitted, the directorate of the United Farmers of Alberta had formed a wheat pool committee to take immediate steps, in consultation with the marketing committee of the provincial cabinet toward the formation of an Alberta wheat pool on a five-year contract basis.

"Late as it was in the year, it was doubted that such an organization could be completed in time to handle the whole crop, but it was felt that the sentiment of Alberta farmers was so strong that the inauguration of an immediate campaign to secure contracts was warranted. In Saskatchewan action was less clear-cut and united than in Alberta, but there too the members of the Saskatchewan Grain Growers Association on July 17 decided to proceed at once with the organization of a provincial wheat pool for the marketing of the crop of 1923, looking towards the fullest measure of inter-provincial cooperation.

"The Farmers' Union in Saskatchewan likewise endorsed such a movement. Development during 1923 took place along strictly provincial lines and in August there was organized in Alberta a wheat pool committee of seventeen, comprising ten farmers, representatives of the provincial government, the grain trade, and of banking, commercial and journalistic interests. The movement enjoyed the general support of the press and business interests.

"In July, 1923, it was decided to proceed with the organization of the Alberta Wheat Pool on a five-year contract basis, although the proximity of harvest made it doubtful if organization could be completed in time to handle the crop of that year. The demand of the Alberta farmers was





so insistent and widespread that a campaign was begun to secure the signatures to contracts.

"The movement swept the province -- merchants, bankers and non-agrarian citizens of all classes joined with the farmers in the canvass. To protect against the possibility of an inadequate sign-up and to secure appropriate volume in the limited time available because of the lateness of the season, contract signers were given the option of withdrawing from the pool if 50 per cent of the acreage of the previous year was not signed up by September 5. At the end of a two weeks' campaign, over 25,000 contracts had been signed, representing 45 per cent of the acreage of the previous year. In view of this response it was decided by the trustees to proceed with the work of organization and operation, leaving contract signers the right to exercise their option of withdrawal up to the 22nd of September. When that date arrived, it was found that the withdrawals amounted to less than the additional acreage signed in the interim.

"With the assistance of the United Grain Growers and the support of the provincial government, financial problems were taken care of. The banks agreed to advance enough money to provide for initial payment of 75 cents per bushel (basis No.1 Northern, in store Fort William) on condition of a guarantee by the Alberta government for the maintenance of a 15 per cent margin between such advance and the market price.

"The United Grain Growers placed their elevator facilities at the disposal of the pool on terms somewhat similar to those made with the Canadian Wheat Board in 1919 - 1920. The Alberta Pacific Elevator Company entered into a similar arrangement. These two companies, controlling 40 per cent



of the elevators in the province, set an example which the other companies in the province were bound to follow.

"The United Grain Growers loaned the new cooperative \$10,000 to purchase a seat on the Winnipeg Grain Exchange and provided money for other expenses, assisted in the organization of its accounting system and released two of its experienced officials to act as manager of the Alberta Pool and Winnipeg sales manager respectively.

"It was not until October 29, 1923, that the new organization was in a position to take delivery of its members' wheat, but nevertheless it handled more than 34,000,000 bushels in its initial season, being 26 per cent of the 1923 crop or 40 per cent of the shipments from Alberta during the 8½ months the pool operated.

"From the foregoing summary covering nearly twenty-five years of grain growing it will be observed that the farmers of Alberta tried and exhausted all efforts to solve their problems by legislative action. They tried the farmer-owned elevator operation. While both these methods unquestionably improved conditions it was clear to farm people that something more was needed. They turned, therefore, as a last resort in a courageous attempt at self-help to the cooperative idea as a means of getting for farmers as large a part of the price which the consumer paid for their product as could be made available. They organized a cooperative structure, built and paid for by farmers. Their purpose was to create an organization to reduce the cost of its farmer members in marketing their product so as to increase net farm income."





The Alberta Wheat Pool

"The Alberta Wheat Pool was organized in 1923 under the Co-operative Associations Act, chapter 160 of the Revised Statutes of Alberta (1922). The question having arisen about the validity of an organization created under that Act to effect the purpose contemplated by the pool, the incorporation was confirmed by the Alberta Co-operative Wheat Producers Act, chapter 7 of statutes of Alberta (1924).

"Thus the pool charter stood until an action was brought in 1928 in the name of a pool member seeking to restrain the payment of a patronage dividend by Pool Elevators to its patrons and demanding the return of the money deducted from the sale of his wheat in previous years for elevator and commercial reserves. These proceedings focused attention on the need for a revision of the charter of the pool to meet conditions as they had developed. This was effected by the legislature of Alberta passing what is now known as chapter 73 of the statutes of Alberta (1921) entitled, 'An Act respecting the Alberta Wheat Pool'. It recited in part:

'Whereas, said incorporation was created in order to carry out a new grain-marketing program designed amongst other things to make possible an orderly marketing of grain; and

'Whereas, the memorandum of association, by-laws, agreements and Act of incorporation were compiled in anticipation of the course that the corporation would be required to pursue to effect its purpose and without full information as to the powers required by the corporation in carrying out its undertaking; and

'Whereas, the corporation has functioned for a period of five years and it is deemed advisable to revise the said



memorandum of association, Act and by-laws in the light of the experience gained so as to give to the corporation the powers necessary and useful to effect its purpose; and

'Whereas, doubts have arisen as to the meaning and intent of the terms of the said agreement, memorandum of association and by-laws.'

"A copy of the Act with amendments is attached as Exhibit 'A' hereto. This exhibit also includes the by-laws. Exhibit 'A1' gives references to statutory amendments to the Wheat Pool Act.

"The pool entered into what was called a 'Marketing Agreement' which was signed by every member. A copy is attached as Exhibit 'B'. The basis of membership and voting which ~~has~~ changed with changing circumstances is outlined in Exhibit 'I'.

"By the marketing agreement the grower appointed the association his sole and exclusive agent, factor and mercantile agent within the meaning of The Factors Act of the province of Alberta, and also his attorney in fact for the purposes in the contract set out, with full power and authority in its own name, in the name of the grower or otherwise, to transact such business and take such action as may be necessary, incidental or convenient for the accomplishment thereof, coupling such appointment with a direct financial interest as the common agent, factor or mercantile agent or attorney in fact of the growers thereunder, and without power of revocation for the full term thereof.

"The marketing agreement recited that one of the considerations for the execution of the agreement by the member was that one similar in terms was being executed by other growers of wheat in the province of Alberta.





"When the Alberta Wheat Pool was first organized, it had a share capital in which each member bought one share. When the constitution was revised in 1929, the pool was set up without share or other capital structure with power to pay back the money which it had received for shares issued under the first constitution. All moneys received from members for share capital were repaid to the members by the pool forthwith after the revision of the constitution in 1929.

"The marketing agreement provided for the deduction by the pool of one per cent of the sale price of members' grain for a commercial reserve and two cents per bushel from the same source for an elevator reserve. See Exhibit B, Clauses 6 (d) and 6(f).

"The grower by the marketing agreement undertook to deliver his wheat grown in the years 1923 to 1927 inclusive to be marketed through the pool under the terms of the agreement. By paragraph 9 the grower covenanted that he would not sell or otherwise dispose of any of the wheat produced or acquired by him in the province of Alberta during the life of the agreement, to any person or persons, firm or corporation, other than the association. The percentage of total wheat deliveries in Alberta handled by the Alberta Wheat Pool in each of the years during which it ran a contract pool is appended as Exhibit C. A new contract was signed to cover the period from 1928 to 1932 inclusive and it contained provisions for continuing deductions for commercial and elevator reserve purposes.

"Thus it will be seen that the moneys which the pool has were received and are dealt with under the



terms of the two marketing agreements which define the respective rights of the pool and the members to those sums and their accretions.

"It was contemplated that deductions would be taken in future years which after the necessary elevator facilities had been built, acquired and paid for would be available to retire the deductions made in earlier years. The fund was to be revolved by capital deductions from the sale of grain."





MR. PORTER: I think it would be useful at this stage if we turned ourselves to an examination of the exhibits, because it is only by looking at them that we shall really understand how this set-up was created and the basis which we now support. Exhibit A contains the by-laws of the Alberta Wheat Pool Act and their amendments to date. The Alberta Wheat Pool Act as it appears in Exhibit A is the act passed in 1929. It will be observed that that act makes no provision for the institution having capital. There are no shares. There is no provision for its having capital of its own. It enumerates the powers which the legal entity has, and then deals with membership. Membership at the time the act was passed consisted in the signing of an agreement to market wheat through pool for a five-year period. There were two marketing agreements signed -- the first series which expired with the marketing of the 1927 crop and the second series which began with the marketing of the 1928 crop and was intended to carry on for five crop years. Deductions were taken under both these agreements and I shall go into the clauses under which they were taken. Membership has changed since that time and we can discuss the various changes as we go along. They are all outlined in a subsequent exhibit, but at that time no one could be a member unless he entered into a contract to market his grain on terms of a uniform contract. These members had the right to vote on three things: the election of a delegate, the recall of the delegate, and on a referendum or any question which should be submitted under the by-laws.

THE CHAIRMAN: How many members are there in your pool? Mr. Porter?

MR. PORTER: Roughly, fifty-six thousand. Not all of these became members by signing the contract. After the



expiration of the period for delivery fixed in the second series contract, there was a period when there was virtually no provision under which the farmer could become a member. That continued through the period when we were in a very serious financial position, and subsequently, when that situation cleared up, provision was made in this respect.

MR. ARNASON: Of the fifty-six thousand, do you know approximately what percentage would consist of active members-- I mean steady patrons of the pool?

MR. PORTER: Those fifty-six thousand are live members, Mr. Purdy tells me. I cannot answer the question myself. Perhaps it is something we can get from the witness.

MR. ARNASON: That is good enough.

MR. PORTER: There is provision in section 8 which makes the vote of the delegate the vote of all the members of his district. A delegate must reside in the district for which he stands. The province is divided into seven areas and each area is divided into ten subdistricts, and the delegate must reside in one of those ten in the district which he represents. In other words, there are seventy delegates, ten for each district. We may have to refer again to that act, but I think that gives you pretty well an idea of the situation in that regard.

There are seven directors who need not be delegates, as in the case of Saskatchewan, to qualify as directors but who must be members. This set-up is not unlike our governments set up in this country, where you have the voter electing a member of the legislature or of parliament, the government being formed as a cabinet from among the members of parliament. The board of directors sits very much, in relation to the delegates, as the cabinet does to parliament, and the delegates sit very much in the position





which the legislature occupies in relation to its electors.

Now I would like you to turn to the exhibit in connection with the first series contract, Exhibit B. I am not going into these clauses with a view to arguing the legal position, because that is something that is now before the Exchequer Court; but I do think that some outline of it is necessary if the commission is to understand the basis on which we regard our capital.

We have no share capital. What money we get at the outset in that capacity we return, and the money we have has always been deducted from the proceeds of the sale of members' grain under the clauses I am about to read, and under the conditions which those clauses include. Clause 6 provides: that the grower shall appoint the association his sole and exclusive agent. There is a great deal more in that clause, but the association is the agent of the grower for the purposes of the contract. Under sub-clause (d) one of the powers of the association is to pay or retain and deduct from the gross returns from the sale of the wheat delivered to the association by the growers certain things, and if you go along in the clause you will see that the association "may deduct such percentage, not exceeding one per cent (1%) of the gross selling price of the wheat as it shall deem desirable as a commercial reserve to be used for any of the purposes or activities of the association." That is the authority for the deduction of what is now known as the commercial reserve.

Sub-clause (f) of clause 6 reads:

"(f) To deduct from the gross returns from the sale of wheat handled by the Association for the Growers who have executed this Agreement or, upon first obtaining the consent in writing of any group of Growers, a sum out of each



grower's proper proportion thereof not exceeding two cents (2 cents) per bushel and to invest the same, in the discretion of the trustees of the Association, in shares of the capital stock of any company or association (formed or to be formed), whether promoted, owned or controlled by the association or not, which company or association is formed for the erection or acquisition by purchase, lease or otherwise of grain elevators and which company or association has entered into a contract or contracts with the association to handle the wheat of its members under the control and direction of the association, and for such purpose to apply for and enter into all necessary and incidental contracts on behalf of and in the name of the grower for the purchase of such shares of the capital stock of any such company."

Clause 7 reads:

"7.: Any unused balance of reserves and surpluses shall stand in the name of the Association and be owned by the members and shall, when in the opinion of the trustees a distribution should be made or upon a dissolution of this Association, be divided in the same proportions in which it was contributed by the members."

I have not given the **by-laws** as changed in the 1929 revision. I do not think it is necessary in view of the fact that the legal position is not going to be settled here, but there were some provisions in the earlier by-laws relating to ownership of these reserves.

MR. ARNASON: The word "trustees" in this contract refers to the arrangement made with respect to the handling of moneys during the organization period in which this contract was being signed.

MR. PORTER: Under the new act we call these directors.





They were called trustees in those days. The trustee is the association under that clause, not the director.

Now Mr. Plumer may continue.

THE WITNESS: The brief goes on:

"The Canadian Wheat Board had been able to function effectively with provincial elevator companies handling its wheat because the Wheat Board possessed a compulsory monopoly in the marketing of the farmers' wheat. The pools, which at the outset believed they could follow the example of the wheat board and have their grain handled by existing elevator companies, soon found that their lack of control, which the wheat board had, placed them at a disadvantage. Being unable to take delivery of their members' wheat through country houses of their own, they found themselves without local representatives in contact with the grower who had to look for his services to an agent of a line company whose primary responsibility was to secure grain for his own principal and to forward it promptly to that principal's terminal. In many cases the pools were unable to control the movement of grain to terminals of their choice or positions where it was necessary to fill orders.

"They were unable to deal with their shippers at the local points where the grower parted with his grain. The grower felt he was less likely to be undergraded or over-docked by a pool elevator operator than by the agent of a contracting elevator company competing with the pool.

"Petitions came from the membership in growing numbers requesting the pool to buy or build elevators at their respective shipping points. Poolmembers began to feel that lower handling charges could be made by



increased volume through houses of their own ownership and the retention of overages and grade gains for their joint benefit. The ownership of country elevators from which pool shipments could be controlled was likewise a consideration. Under The Canada Grain Act and their contracts with the Pools, line elevator companies were free to ship customers' grain to any public terminal. Thus they were naturally interested in shipping it to houses which they owned in whole or in part where they might properly earn additional handling or storage charges. If the pools desired their own wheat directed to their terminal or mills, they were required to pay a diversion charge to the elevator company. The feeling was that some companies tended to give preference to their own grain in forwarding the contents of their elevators to Lakehead to secure the benefits of cash premiums.

"To meet the need for farmer-owned elevators to serve the pool, negotiations were opened with the United Grain Growers and with the Saskatchewan Cooperative Elevator Company. Committees met in the early part of 1925. Proposals were put forward by the Saskatchewan Cooperative Elevator Company by which their agents should receive their instructions direct from the pool; that there would be a joint advisory committee with representatives of each provincial pool and the two farmer-owned companies, to make recommendations on matters of policy and operation; the ascertainment of actual cost of handling wheat through country elevators and returns to pools of profits so shown, on the basis of the proportion of pool wheat to total handlings; and the concentration of pool wheat through farmer-owned companies' terminals and handling of same at cost. Negotiations for the





purchase or lease of the United Grain Growers' facilities in Alberta were carried on. All these negotiations broke down.

"In all three provinces the pools then expanded elevator operation -- in Manitoba through Manitoba Pool Elevators building and buying houses -- in Saskatchewan by purchase of the properties of the Saskatchewan Cooperative Elevator Company and in Alberta by construction and purchase of elevators through Alberta Pool Elevators, a joint stock company created by the Alberta Pool under the provisions of The Companies Act of Alberta.

"While there were no deductions for elevator reserves in the first year of the Alberta Pool's operation, elevator deductions were taken under the terms of the Marketing Agreement in the second year and thereafter until 1928. Alberta Pool Elevators Limited operated three elevators in 1925-26; in 1926-27 it operated forty-two elevators, and from that time on the system grew until in 1929 it was operating 438 elevators, which it had bought or built. It also built and leased terminal facilities."

MR. PORTER: That is about the same number you are operating to-day.

THE WITNESS: Yes.

MR. PORTER: You have a terminal elevator of your own at Vancouver and one at Fort William?

THE WITNESS: Yes.

MR. PORTER: And you lease a government terminal elevator in Vancouver.

THE WITNESS: That is true.

"The capital used was furnished by the pool buying shares in Alberta Pool Elevators Limited with the elevator deductions and lending it sums out of the commercial reserve.



The grain operations of the company were carried on by borrowings on its own credit and the credit of Alberta Wheat Pool.

"This elevator company entered into a handling agreement with the pool in terms identical with one signed by all other elevator companies which handled wheat for the pool. A copy of this contract is appended as Exhibit 'D'. Under this agreement the elevator companies collected from the members their charges, fixed by the Board of Grain Commissioners and operated on spreads fixed under the agreement.

"The earnings of the pool elevator company prior to the season of 1927-1928, were paid by the elevator company to the pool and added by the pool to the final payment for the proceeds of the sale of grain to all members. The distribution was to all members and not just pool elevator patrons alone, the reason being that the elevators had been built by the deductions from all the members but they could only be patronized by those who lived in the vicinity of the structures which were still too few to serve all of the areas of the province.

"In the crop year 1927 the elevator company made approximately \$1,000,000. Inasmuch as it was the declared purpose in all of the elevator construction program and campaign to give service to the members at cost, the earning in that year was distributed on a patronage basis.

"In May, 1928, the delegates of the pool decided that the elevator system for the ensuing year would be operated by eliminating handling and service charges and deducting actual operating costs on a bushel basis from the final pool payment for wheat to pool elevator patrons. On the 21st of September, 1928, a circular was sent by the pool





to all its members advising that this method of operation could not be put into effect. The elevator companies having contracts to handle pool wheat pointed out that this method of operation was unfair to them inasmuch as a pool member could go to his own elevator and have his grain handled without having to put up any charge in cash, whereas if he were obliged to send his grain through a line elevator, even though he was sending it to the pool, he would have to pay a cash amount on delivery. Accordingly on the 21st of September, 1928, a circular was sent to all members pointing out that the pool elevators would be operated on a patronage basis. This circular is appended as Exhibit E. In the crop year 1928-1929, \$488,000, was paid out by way of patronage dividends."

MR. PORTER: I would direct attention to that circular for the purpose of showing the move which the delegates have decided on. When a man brought grain in and delivered it he took his grade and his initial payment, and the cost of handling it was to be adjusted and deducted from his final payment when he got it. That is the method that the delegates decided to use at that time, and as the brief points out, it was wrong to do that at the pool elevator when a similar arrangement was not available to the member at the line elevator, and inasmuch as the contract between the pool and the line companies provided that, if any arrangement were made in connection with the pool elevators, a like arrangement would be made in respect of the line elevators it was found that the method was impracticable. I want the commission to see it as illustrating the extent to which these people viewed this operation as one to be conducted at cost.



operation as one to be conducted at cost.

"In the month of July, in the year 1929, the pool set its initial payment for the 1929 crop at \$1.

llows





per bushel in store Fort William, the price for cash wheat at that time being \$1.67 $\frac{1}{2}$  on the same basis. While there was a carry-over from 1928 of some 48,000,000 bushels, the 1929 crop was so much smaller than the crop of 1928 that the advance of \$1 per bushel seemed sound.

"World-wide economic conditions then apparent to very few observers were, however, at work and crystalized ultimately in what we now call the 'depression'. Their effect was first felt upon raw products moving into world export markets. Wheat suffered earliest and most severely of the export production. The volume of international shipments of wheat shrank from 925 million in 1928-1929 to 612 million in 1929-1930. (Sirois Report, book 1, ch. 6, page 138.)"

MR. PORTER: We find at this point a reference to the Sirois report, and if there was more time it would be interesting to read it. Although it is not long, I think we should refrain from doing so at this time, but I would urge members of the Commission to take a look at it, because it is a useful summary, looking back on a lot of facts which we should have seen in 1929, and which I think it is agreed no one foresaw.

THE WITNESS: The brief continues:

"The pools took delivery of 129,952,000 bushels of wheat from the 1929 crop and had on hand 48,000,000 bushels of a carry-over from the 1928 crop. The Pool carried the price risk of ownership on all this grain. All the other grain marketed in Canada was sold through the futures system of the Winnipeg Grain Exchange. This system which presupposes a free market and consumption capable of absorbing the crop within a year of its growth does not tolerate surpluses and knew no method by which



to attempt to move them except by reducing the price.

"World conditions, discussed in the reference to the Sirois Report, precluded former customers from buying in anything like the quantities of previous years. There came a precipitous drop in the price of wheat. Sales of wheat did not increase with the fall in price. Alarmed by the threat of cheap wheat to their own agricultural populations importing countries imposed tariffs and quotas. There began that long period of world wheat surpluses which has, with some fluctuations, continued to the present time.

"The pools borrowed the money from the chartered banks to pay the initial payment of \$1 per bushel to its members, undertaking to maintain a margin of 15 cents per bushel between the market price from day to day and the borrowings. As the market fell, the pools became financially incapable of maintaining this margin. No one then had a realization of the far-reaching effects of the altered circumstances of world economic affairs and there was but 'faith in the speedy return to the old conditions of prosperity'.

"The governments of each of the three provinces of Alberta, Saskatchewan and Manitoba gave guarantees to the banks against ultimate loss arising from the banks' advances to the pools on the 1929 crop. The Alberta Wheat Pool gave the Alberta government a charge on all its assets as did Alberta Pool Elevators to secure the government upon the guarantee to the banks. The validity of this charge was declared by statute, notwithstanding the interests of the members in the properties. (Statutes of Alberta (1930) Ch.27; Statutes of Alberta (1931) Ch. 4.)"



MR. PORTER: I have not put those statutes in, although they may be needed in argument. It seems to me however that they are available to all alike, and need not go into the record of the Commission.

THE WITNESS: The brief continues:

"When the 1929 crop was ultimately marketed it realized some \$22,000,000 less than had been advanced by the pools to members on account of the 1929 deliveries. Alberta Wheat Pool was liable for \$6,429,000 of this loss. On final ascertainment of the amount of the overpayment which was not fixed until 1932, the government of the province of Alberta issued to the banks its bonds payable in 1951 for the part of the overpayment for which the Alberta government was liable to the banks. Alberta Wheat Pool and Alberta Pool Elevators Limited issued a bond payable on an amortized basis, calculated to retire the debt and interest in 1951 secured by a charge upon all of the fixed assets of Alberta Pool Elevators Limited and a floating charge upon all of the assets of Alberta Wheat Pool and assets other than fixed assets of Alberta Pool Elevators Limited. The validity of this document was declared by statute. (Statutes of Alberta (1932) Ch. 8.)

"In view of the member interest under the contract in the property charged under the provisions of the two marketing contracts, providing for the deductions which built the facilities pledged, the same statute (being chapter 8 of the Statutes of Alberta, 1932) precluded the members from withdrawing any monies from the commercial or elevator reserves pending payment of the debt secured by the debenture."

MR. PORTER: It will be noted that the expression "member interest" is used. Under the three clauses which





I read from the marketing agreement, which left the deductions, the property of the members, in our hands, there was some doubt about the right of these institutions to pledge property that that money had acquired for the purpose for which it was pledged. The validating statute declared that it is validly mortgaged, in any event; and then without changing the position as between the institution and its members under that contract, we suspend whatever right there may be to a return of that money until after the expiration of the period for payment of the mortgage.

THE WITNESS: The brief continues:

"In 1929 the United States government, recognizing the emergency situation which existed with respect to the prices of agricultural products, passed the Agricultural Marketing Act authorizing the purchase of farm products, particularly wheat, in order to stabilize prices. This operation resulted in a substantial loss, borne by the American treasury. Australia went off the gold standard. Argentina set up a system of exchange control calculated to maintain prices internally. In Canada the wheat pools controlled the marketing of approximately one-half the supply of wheat all unhedged and were therefore in themselves a stabilizing factor. There was not therefore in Canada the same apparent necessity for government intervention as the three pools were in effect carrying on stabilization operations like the government of the United States by holding large quantities of wheat from forced sale which would have caused complete collapse.

"The whole of the cost of that operation which enured to the benefit of all of the people of Canada was borne by pool members. Moreover pool members secured



only the initial advance for their wheat. Non-pool farmers were able to sell at varying prices of their choice on the decline made less precipitous by the relief of hedging pressure which pool stocks effected. In no other country was a single organization, cooperative or otherwise, called upon to carry such a load and make such a sacrifice.

"The overpayment amounted to a sum almost as great as the elevator and commercial deductions combined. The elevator facilities were charged with its repayment. Member equity in the properties therefore stood impaired to the extent of the debt to the provincial government. The monies which created this loss were, however, received by the growers in the advance on their wheat and they were to that extent in the same position as if their reserves had been repaid to them.

"Mindful of the benefits which they believed the pool and the elevator system had brought to them, all were intent upon seeing it continue to function, hopeful that the marketing conditions which had led to the price collapse were temporary. The Pool continued on a contract basis for the crop year 1930, the government of Alberta, postponing its charge under the debenture to enable the banks to take security for the advances to permit the Alberta Wheat Pool to carry on for the crop year 1930.

"Sirois Report - pages 161 and 162:-

'The plight of western agriculture was quickly recognized. The federal government, whose economic policies did little to soften the impact of the depression on the wheat farmer, undertook to alleviate his position by means of public finance. When wheat prices began to fall precipitously in the autumn of





1930, the dominion guaranteed the initial payment set by the pools and a general manager of the central selling agency having the confidence of the government was appointed to take charge of the carry-over and to market the 1930 crop. In the following year the contract pools were terminated and the initial payment or minimum price system was abandoned. In that year (1931) the federal government paid a bonus of five cents per bushel on all wheat marketed. The bonus was discontinued in 1932 and instead a 'stabilization' policy was begun. Throughout the period, 1932 to September, 1935, the government, through the general manager of the central selling agency, made large purchases of futures on the Winnipeg Exchange for the purpose of maintaining or raising the open market price at which farmers sold their wheat. While these efforts at times held the Canadian wheat price above comparative world prices, they did not, however, prevent it from falling to disastrously low levels. The attempt to "stabilize" the value of Canada's principal export sold on a shrinking world market was a bold venture. The unsold stocks which accumulated and were held by the government assumed large proportions and involved an increasingly hazardous risk to the taxpayer. When the Wheat Board was established in the autumn of 1935 and the "stabilization" operations came to an end, the government had on hand some 205 million bushels of wheat. However, the continuation of the drought in North America, a short crop in the Argentine, and world economic recovery brought a sharp rise in prices during the following year and the Wheat Board was able to sell the whole of the carry-over in a



relatively short period with a small net profit to the government. The minimum prices set by the board for the 1935 and the 1936 crops resulted in losses of about \$12,000,000.

'Although the government's wheat marketing policy during the depression entailed considerable risks, the total cost to the taxpayer proved in the end to be relatively small -- a total of about \$20,000,000 (including the five cent bonus) during 1930-37, or less than an average of one cent per bushel over the period. The drastic impact of the depression on prairie agriculture was not significantly reduced by government assistance.'

"In 1930 Alberta Pool Elevators Limited leased its entire undertaking to Alberta Wheat Pool which since that time has operated it under a lease, renewed from year to year, in terms identical with those contained in the document, exhibit F hereto attached."

MR. PORTER: Whereas it will be noted that the copy of Exhibit F bears the date 1931, actually the first of these leases was made in 1930. I emphasize that because in 1930 the operations of the Pool were clearly under 4 (p), pooling under contract. So that there was no question as to this document's being made in any way in relation to taxation. It was done at that time for the purpose of consolidating the operations of the Pool and the Elevator Company and involved internal questions only. I say that because there was no question of taxation outstanding at that time. The lease, which is Exhibit F, simply provides that -

"In consideration of the mutual covenants herein contained the Company...."



That is, the Elevator Company --

"....hereby leases to the Pool the Company's entire undertaking for a term...."

of one year. That lease has been renewed from year to year since that time. The terms are that the Pool will pay all operating and maintenance expenses of the venture, and will pay insurance premiums to the extent necessary to keep it insured, and pay all rentals on leases the Elevator Company owns, and all interest payable under any mortgages the Elevator Company has outstanding -- and at that time there was outstanding a mortgage on the terminal elevator at Vancouver. Then --

"In the event that the Pool receives on the operation of the Company's undertaking a sum sufficient to pay all of its obligations under this lease and all of the other expenses of operating so that any sum remaining would represent a profit then to pay to the Company a sum for depreciation calculated at the rate and ascertained in the manner heretofore used by the Company in setting up its depreciation fund."

Then, there is a provision for cancellation in the event of the Pool ceasing to receive wheat from its growers, or making an authorized assignment in bankruptcy, or ceasing to operate the undertaking of the company, save only such portions thereof as may be shut down on account of seasonable activity in accordance with practice in the elevator business.

Then, there is provision in clause 1 that --

"For the period of the term hereby granted or until the sooner determination thereof each of the parties hereto will forego its right to claim from





the other interests on any sums or balances of account that may from time to time be owing from one to the other."

It is pointed out to me that I may be wrong about there being an earlier one. The reason I did not incorporate the earlier one was that I could not find it. Perhaps the reason I could not find it is that given me by Mr. Howard, that this lease actually runs from July 16, 1930, although it was dated February 26, 1931. It actually says, "for a term beginning (notwithstanding the date hereof) the 16th day of July, 1930"; so I might after all have given the first one. My point is that as of the date on which the arrangement was made we were clearly under 4 (p). I think Mr. Howard has solved the reason I could not find the earlier one, if there was one.

THE WITNESS: Then, the brief continues:

"In addition to leasing its facilities to the Alberta Wheat Pool, Alberta Pool Elevators Limited joined with the Alberta Wheat Pool in pledging its credit with the chartered banks to borrow the money to enable the Alberta Wheat Pool to carry on its operations in the various forms which they have taken since 1930 which are outlined hereafter.

"With the close of the crop year 1930 the Pool decided that it ought to leave its members free to market their grain by any available means. The fall in price of grain had been so severe and the resulting losses to the agricultural population so acute that they were not able to function by taking a partial payment at the time of delivery on their crop, but in order to exist at all they had to get in full the little payment which was available on outright sales. (See Exhibit 'G'. Sirois



Report - volume entitled 'National Income', pages 90 and 91.)

"Accordingly the Alberta Wheat Pool advised all of its members that it would release them, not from the contract as is so often loosely said, but from one of the obligations in the contract, namely the obligation to market all of their grain through the Alberta Wheat Pool for the period fixed by the contract. (See Exhibit 'A'-sections 32 (a), (b), (c) and (d).)"

MR. PORTER: Exhibit G is taken from the national income study in the Sirois Report, and shows the breakdown of farm income, and also shows the price of wheat from 1925 to 1937. It is just a handy way of showing, statistically, that the price drop was so great that people could not afford to take the initial payment. I shall not go into the figures in detail, but I would point out that they are all there on that exhibit.

Then, I do wish to direct attention to Exhibit A on this question of releasing the grower, because there seems to be some confusion about it. I direct the attention of the Commission to the black title "Subsisting Agreements". Under that heading we find this:

"In handling the wheat crop of the years 1931 and 1932 the Pool releases members from the obligation to deliver all or any wheat to the Pool in pursuance of such agreements."

This by-law is a by-law passed by the delegates, and as I said, the vote of the delegate is the vote of every member for his district. Then, the next paragraph under "Subsisting Agreements" is as follows:

"The Pool will take delivery of any wheat from a member for pooling subject to the terms and





conditions set out in the marketing agreement.

"In respect of wheat pooled in the crop year 1931 the Pool will make no deductions whatsoever from the proceeds of the wheat so delivered on account of commercial or elevator reserves, or on account of the overpayments in respect of the 1929 crop.

"The Pool will enter into a marketing agreement with any wheat grower for the crop years 1931 and 1932 or either of them for the pooling of all or any wheat delivered by such grower to the pool for pooling upon the terms and conditions set out in the current marketing agreement, subject to the same modifications as to the obligations to make delivery set out in sub-clause (a) hereof and subject to the condition that no deductions shall be made from the proceeds of any wheat so pooled on account of commercial or elevator reserves."

I have referred to these paragraphs because there is a broad notion--and we heard it expressed yesterday--that the grower was released. The contract in our case subsists. The change in it is brought about by those clauses.

Perhaps at this time I might complete the record by saying that so far as new members are concerned, they are dealt with under an application for membership, which I shall offer as an exhibit, and which contains the following paragraph:

"In consideration of the board of directors accepting such assignment....."

That is the assignment of share in the reserves --

"....and granting me membership in the Alberta Wheat Pool I agree to be bound by all of its



constitution and by-laws and by the terms of the contracts under which reserves I have acquired were accumulated in the same manner and to the same extent as if I had been an original signer thereof."

The contract to which that clause refers is the first and second series contract, under which reserves were taken. I think perhaps this document should be marked as an exhibit. I did not put it in as part of my brief, although I think I should have. I can prove it formally, if it is desired. It will complete the contractual relationship.

THE WITNESS: Then, the brief continues:

"Members were simultaneously advised that if they so desired they could continue to market their grain on the pooling basis. They could deliver their grain to the Alberta Wheat Pool, to be dealt with by it on the same terms as were provided in the contract. On that basis voluntary wheat pools were operated by the Alberta Wheat Pool in the crop years 1931, 1932, 1933 and 1934. With the return of the Federal Wheat Board these operations were suspended in 1935-1936. In the crop years 1936, 1937 and 1938, wheat was marketed through a Federal Wheat Board, functioning side by side with the open market. In 1939 and 1940 there was the open market and the Wheat Co-operative Marketing Act."

MR. PORTER: I should like to make a correction here. Under the Wheat Co-operative Marketing Act the maximum which could be handled was 5,000 bushels. The Alberta Wheat Pool ran a voluntary pool for its members who wanted to market in excess of that 5,000 bushels.

THE WITNESS: The brief continues:

"In the crop years 1941, 1942 and 1943, till 27th September, 1943, there was the wheat board and the open



market, after which the wheat board marketed all wheat.

"No deductions from the proceeds of sale of members' grain have been taken since the crop of 1928. The business of the Pool, including the operation of the elevators, has been financed exclusively by the use of the elevator and commercial reserves, accumulated under the contract prior to 1929, aided by annual postponements of the Alberta government's security to permit of borrowing from the banks. Since the advent of the wheat board the Alberta Wheat Pool has functioned under the terms of the handling agreement, identical in terms with those made by the board with all other elevator companies.

"The operations of pool elevators from 1930 onward have resulted in earnings and losses, details of which are available to the Commission. No patronage dividends were paid from 1928 until 1941. The struggle of the members of the Pool throughout that period was to keep their enterprise in business and to pay off the mortgage to the Alberta government as a condition precedent to their return to the principle of rendering elevator service for members at cost.

"In 1941 when it became apparent that the Pool was in a position to reduce its debt to the Alberta government to a sum that would not preclude the Pool from carrying on, the delegates decided to distribute to member patrons some of the earnings made in the interval. Records have been kept throughout making it possible to allocate these earnings to members on a bushelage basis. An initial distribution of \$89,000 was authorized in 1941 on the deliveries of 1938, and \$92,000 on the deliveries of 1939, and \$470,000 on the deliveries of 1940. Since 1940 two additional distributions have been made, being





\$196,482 for 1941 and \$306,472 for 1942. A distribution has been authorized for 1943 amounting to \$1,351,808 but payment has been withheld pending clarification of the income tax position.

"With the object of retaining the ownership of the enterprise in the hands of those who from time to time are its patrons, amendments were secured to the Pool's charter to enable the Pool to pay patronage dividends in the form of reserves. These are found in their present form in sections 40 to 45 of The Alberta Wheat Pool Act. (Exhibit 'A'.)"

MR. PORTER: We will have a look at this, so that we can understand how it works. In short, these authorize the Alberta Wheat Pool to buy rateably from all reserve holders a percentage of their reserves, and the section compels the member to sell. Having acquired them the institution may write them off, or may issue them to two classes of people. Those who desire to become new members are required under the by-laws to be owners of an interest in the reserves before they can become members, and the institution may sell to them, or may distribute them to members on the occasion of a patronage dividend, in lieu of cash.

There is at the moment a limit of 15 per cent on the amount which can be bought back by the institution. That is a limit which we ourselves imposed, and which the government felt ought to be imposed; because by the method of buying in and cancelling we could have wiped out and distributed our entire capital. It was felt that while we were in debt that there should be some limit on the amount which we could buy in and cancel.



THE WITNESS: The brief continues:

"It is submitted therefore that the declared initial purpose that the Pool should function on capital belonging to its members so as to give them service at cost by returning the earnings to them in the form of a patronage dividend has been consistently adhered to except where that practice was prevented by the overwhelming necessity of postponing distribution on a bushelage basis to save the enterprise from being lost by the members who built and used it. The member patrons have nevertheless in the interim received a dividend in the form of the increase in their equity in the enterprise brought about by the reduction of the debt through the application of earnings.

"The price of wheat in western Canada is fixed on the basis of its value according to government grade and weight in store in a licensed terminal elevator in Fort William or Vancouver. The price of wheat at any given country point is ascertained by the Fort William price, less freight and elevator service charges and handling spreads.

"An examination of the contract issued by the Alberta Wheat Pool to elevator companies during the days of the contract pool makes it clear at once that the existing contract between elevator operators and the wheat board is modelled on the old pool handling contract with elevator companies. The function which the Alberta Wheat Pool is performing for its members now is not different from that which it performed under the contract pool, except that under the contract pool it disposed of the grain to many buyers, whereas now it delivers grain under the compulsion of a statute to the wheat board.

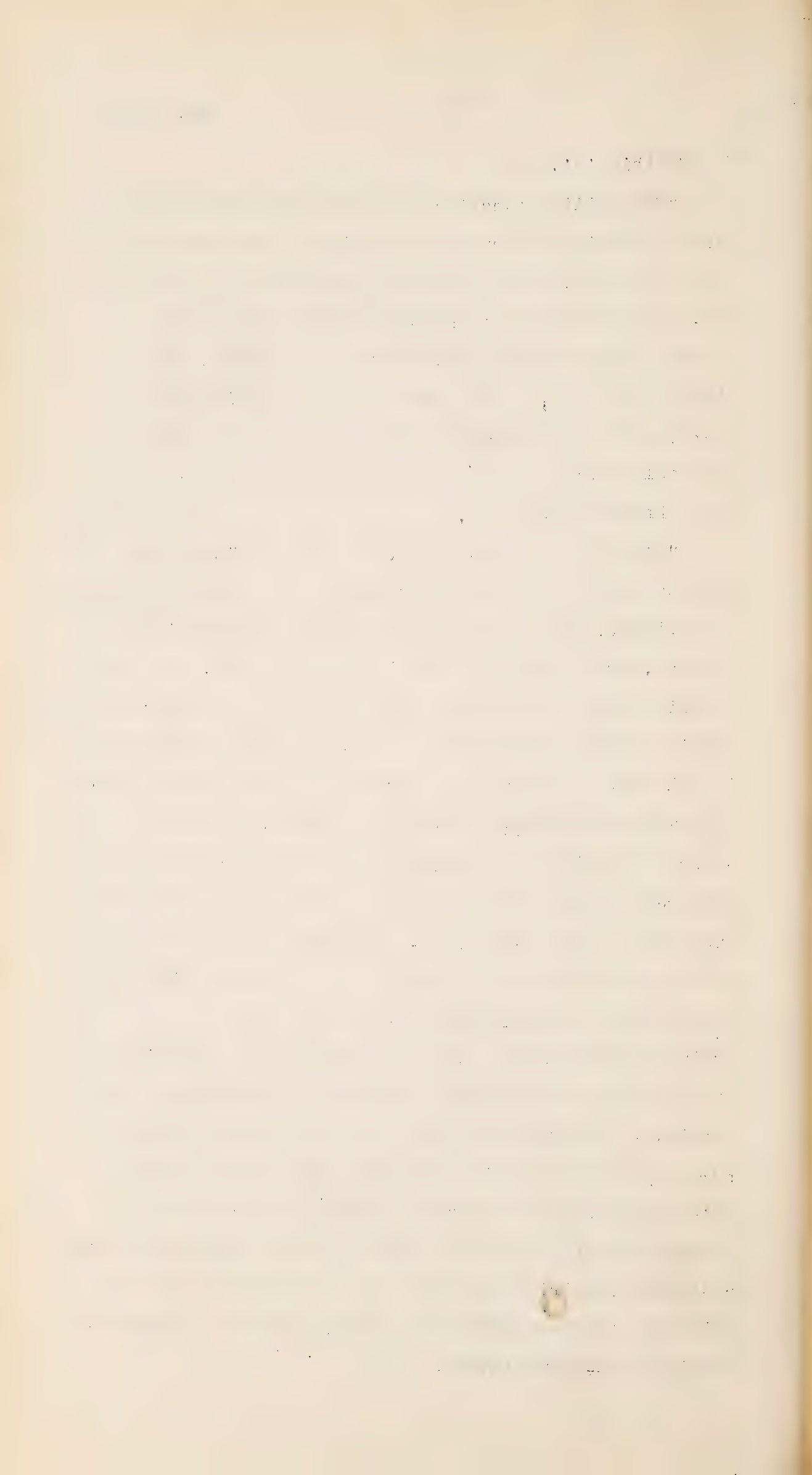




See Exhibit 'H'.

"The selling functions formerly performed by the central selling agency of the pools are suspended but all others prevail. What are those functions? It takes the grain of its members from the truck or wagon at the initial shipping point and delivers it through its facilities to the ship, to the order of the Canadian Wheat Board, just as it formerly delivered it to the order of the pool selling agency, called the Canadian Co-operative Wheat Producers Limited.

"Under the contract pool, the Alberta Wheat Pool made an advance to the grower against his wheat at the time of delivery. The amount of that advance depended on freight, grade and the condition of the grain. Now, the Alberta Wheat Pool makes a like advance to its patrons on behalf of the Canadian Wheat Board. In both instances it delivers the grain to a terminal position on the basis of government weights, grade and dockage. In one instance it delivered the grain in a terminal position to the order of the central selling agency and in the other instance to the wheat board. In both cases it is paid not the advance which it has made to the grower but the advance that it would have made to the grower if his grain had been graded and docked at the country point as it is graded and docked by government inspection at the terminal. The risk of grade loss was in each instance borne by the Alberta Pool but the earnings from grade gain and overages accrued to the Alberta Pool and this in the case of the Canadian Wheat Board, notwithstanding a statute requiring the wheat board to pay all farmers alike for the same grade and quality of grain. Likewise terminal gains and losses.



"When the Pool was functioning under a contract, a line elevator company made the gain on grade and overages, just as the line elevator companies and the Pool today make the gain on grade and overages on handling farmers' wheat for the board and so in in the terminals. These facts are cited to show that it has not been possible to find a method by which grain can be handled merely for a fee, inasmuch as it is completely impossible to preserve the identity of each wagon or truck lot.

"What the Alberta Wheat Pool undertakes to do with its members, therefore, is to deliver a member's wheat from the wagon to the ship at cost, bearing in mind those inequalities due to errors in grade or dockage which may cost one member a loss and benefit another, but so that the aggregate of the gains is distributed back to the member on the basis of bushels delivered. Thus not only the excess charges but all of the operating gains are returned to the member by patronage or added interest in his own enterprise. His cost of getting his grain to the state and position where in Canada its price is fixed, namely in store in terminal in Fort William or Vancouver, is accordingly reduced. The farmers' taxable income is accordingly increased.

"While the contract with the wheat board expressly declares the Alberta Wheat Pool to be an agent of the board, that statement is legally inaccurate, inasmuch as any agent would ordinarily be accountable to his principal for the gains made in the handling of his principal's goods. None the less, the Alberta Wheat Pool in handling its members' wheat functions too as their agent and is bound to return to the member the proceeds of the grain delivered to the wheat board, less proper



charges, the combined surplus of which is distributed to the member by patronage dividends or an accretion to his equity in the enterprise.

"The Alberta Wheat Pool now handles member and non-member grain under public elevator licenses issued by the Board of Grain Commissioners. The percentage of non-member business is well below the permitted maximum set by the provisions of section 4 (p) of The Income War Tax Act.

"Wheat and flax are handled under contract with the wheat board. Coarse grains are handled on the open market under the regulations of the Wartime Prices and Trade Board. Neither the Alberta Wheat Pool nor Alberta Pool Elevators Limited were ever assessed by the government of the province of Alberta for income tax nor were they assessed by the Dominion under The Income War Tax Act until 1944 when an assessment was issued covering the operations of the Alberta Wheat Pool for 1942 as a basis of testing the legal position of the Alberta Wheat Pool. Proceedings in this assessment are now before the Exchequer Court, stayed pending the report of this Commission."

MR. PORTER: I might say there has been some confusion about the Alberta situation with respect to taxation, and I should like to explain the law as it was then, so that we may remove that confusion.

In Alberta we had an income tax imposed much as we have one in the Dominion. But we also had a corporation tax, imposing a variety of taxes upon the property of different types of corporations. Under that Act there was a tax of \$55 imposed on each licensed elevator -- that is, each elevator licensed under the Canada Grain





Act. But it was provided that if the owner of an elevator paid income tax to the province, the \$55 was deductible from his tax. Because the Alberta Wheat Pool paid \$55 -- and it was imposed on everybody, whether they had income or not -- it will be said that the Alberta Wheat Pool paid income tax. The fact is that it did not pay income tax in Alberta. The brief is correct on that point. But it did pay \$55 tax, per house, which in the case of those companies paying income tax was deductible from their income tax.

THE CHAIRMAN: That is on each elevator.

MR. PORTER: Yes, on each elevator.

THE WITNESS: The brief continues:

"The operation of pool elevator companies has resulted in the progressive reduction of the costs of grain handling of pool and non-pool member alike. Handling charges and spreads have been steadily reduced. The wheat pools have consistently led the efforts to reduce charges and spreads in the negotiations with the wheat board, and in spite of the resistance of competing enterprises, have been able to bring about reductions that during the period of the wheat board's operations have resulted in a saving of hundreds of thousands of dollars to the government of Canada and to farmers, pool and non-pool alike.

"The Alberta Wheat Pool has been a gigantic attempt by more than half the people of the province of Alberta who live on farms to help themselves after the exhaustion of efforts to solve their problems by legislative methods to which they resorted for a period of over twenty-three years. These people watched the experiment of elevator operation by government in Manitoba and tried themselves



to solve the difficulties by farmer-owned elevator companies. Alberta Wheat Pool has carried on with capital contributed by members alone. Through the economic chaos of the depression it took its losses and while the impact of those events necessitated aid from the provincial government its members met and have almost retired that loss which is amply secured by a mortgage on their property.

"This whole attempt at self-help has been conducted without cost to the government of Canada, while side by side with the Pool's stabilization activities other nations gave aid to growers at the expense of national treasuries. The loss of more than \$22,000,000 the three pools have borne and are still repaying, exceeds by \$2,000,000 the total loss of the dominion government in its conduct of stabilization and wheat board operations which it undertook later than the government of other countries and only after the Pool had carried the burden alone.

"Both its stabilization efforts and the reduction in handling charges have accrued to the benefit not only of pool members but the whole of the grain growing population of the west.

"In the post-war economy, cost of production and marketing will be again the major factors in our ability to produce and sell in the world's markets. Western farmers pay freight and duty on nearly everything they use in the production of wheat. They pay freight to the world's market on the goods they sell. Whatever saving can be made in the cost of marketing their production will to that extent increase the ability of





Canada to compete in international markets.

"It is submitted that the nation ought not to hinder this mass of people in their efforts to market their own production at cost. The ordinary corporation is an association of people who put their capital into its shares for the purpose of making a profit at the expense of their customers. The Alberta Wheat Pool is an attempt by members to put their capital into the hands of a legal entity to enable it on their behalf to reduce the cost of marketing the member customers' production.

"The savings thus made increase the tax liability of the members. To tax these savings in the Pool's hands is to tax them twice, if the member is taxable. If the member is not taxable, the effect of taxing the Pool will be to impose a tax on that great number of Pool members whose income is at so low a figure that parliament has declared it should be exempt."

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MR. BROSSARD: Mr. Chairman, in connection with the Saskatchewan Pool brief, we adopted a procedure which appeared to be satisfactory to the board and to all concerned, with the possible exception of Mr. Wesson, though I imagine it was satisfactory to him also. I would suggest that we follow the same procedure in connection with this brief. So if Mr. Fillmore or any others have any questions to ask the witness, they might do so now, subject to our right to add to the examination if necessary.

THE CHAIRMAN: Mr. Porter, have you any questions to ask the witness?

MR. PORTER: I think not at this stage. The other procedure was quite satisfactory.

BY MR. FILLMORE:

Q. I think you told us in your brief, Mr. Plumer, that you now have 438 country elevators? A. Yes.

Q. And as I understand it, the country elevators are owned by the Alberta Pool Elevators Limited? A. That is true.

Q. And you now have terminal elevators, I believe?  
A. Yes, sir.

Q. Are they owned by the Alberta Pool Elevators Limited?  
A. Yes, they are.

Q. How many terminals have you? A. We have two that we own.

Q. One at the head of the lakes and one in Vancouver?  
A. Yes, sir.

Q. Were they purchased since 1931? A. One of them was.

Q. That is the one at the head of the lakes? A. Yes, sir.



Mr. Plumer

Q. Up until 1931 the elevator company was the operating company? A. I think that is the date; yes, sir.

Q. Then in 1931 there was a lease, to which Mr. Porter referred, from the elevator company to the Alberta Pool, which since that time has operated the country and terminal elevators? A. That is right.

Q. And the Pool has all the shares, except the directors' operating shares, in Alberta Pools Limited? A. Yes, sir.

Q. That is the directors' qualifying shares? A. Yes, sir.

Q. And the company owns the shares of Pool Agencies Limited? A. The Alberta Wheat Pool.

Q. And what company owns the shares in the Pool Insurance Company? A. The Alberta Wheat Pool.

Q. And has the Pool or the elevator company any other companies, or shares in any other company or companies? A. Not that I recollect.

Q. Have you a printing company which publishes the Alberta Budget? A. We have not. We print that in our office.

Q. In the office of the Pool? A. Yes, sir.

Q. And have you shares in the Canadian Co-operative Wheat Producers Limited; that is what has ordinarily been referred to as the central selling agency? A. Yes, sir, we have. I had forgotten that.

Q. The Pool has? A. Yes, sir.

Q. And also in the Canadian Co-operative Implement Company? A. No, sir.

Q. I think up until 1931 the Canadian Wheat Producers, that is the selling agency, was the central selling agency for the three western provinces? A. That is true.





Mr. Plumer

Q. But starting with the crop season of 1931, Alberta, like the other provinces, did not employ the central selling agency? A. That is right.

Q. Were you a director of the Alberta Pool in 1931? A. Yes, sir.

Q. And were you connected with the central selling agency? A. No, I do not think I was at that time, sir.

Q. Did you later become a director? A. Yes, sir.

Q. Were two of your directors, namely Mr. Wood and Mr. Hutchinson, directors of the central selling agency in 1930 or 1931, around that time? A. Yes, sir.

Q. Since Mr. Porter has referred to the statutes, I think perhaps I might at this point refer to certain sections which he did not mention, as they might affect the subsequent discussion. For example, chapter 73 of 1929, which Mr. Porter mentioned, contains a provision in section 3 to which I should like to refer. It states that the Alberta Pool will be a body corporate and politic and have perpetual succession, and a common seal, and shall be possessed of and vested with all the real and personal estate, property and assets; all present and future rights, claims and interests of the corporation, and is liable for the debts. Section 19 provides that members are not personally liable for the debts. Section 15 says that the directors shall administer the affairs of the Pool in all things and have power to do all things in their opinion necessary or useful for the conduct of the business of the Pool. Section 37 provides that the Co-operative Association Act does not apply; and section 26 says that no member or anyone claiming under him shall be entitled to repayment of any money which is being used as part of the elevator or commercial reserve so long as the directors are of opinion that



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it is useful in carrying on the business of the Pool, notwithstanding anything in the marketing agreement contained, or that any member may have ceased to be the holder of a current marketing agreement.

Then in passing I might call attention to chapter 70 of the 1942 statutes of Alberta, which amends section 42 of the 1929 Act. It provides:

"Notwithstanding the provisions of this Act and of the marketing agreements, the directors of the Pool may, when authorized by resolution of the delegates, cancel or write off commercial reserves pursuant to section 40; sell to applicants for membership the interest in commercial reserves, and (c) refund a portion of the earnings made by the operation of the facilities of the Pool in any year in cash or in elevator commercial reserves purchased under section 40 and not cancelled under section 42(a) hereof --"

and so forth. I think those are all the material provisions. Now, Mr. Plumer, you have told us that up until I think 1928 -- I believe that was the last year -- you made deductions for elevator reserves and commercial reserves? A. Yes, sir.

Q. I forget whether it appears in your report or not, but according to your directors' report, referring to 1940-41, page 40, the elevator reserves are \$6,033,655 now?

MR. PORTER: This is the start of something and I think we may as well settle it now. Our reports are not public documents. We have given the Commission, at its request, our financial statements. We are quite prepared to give the Commission any additional material that it wishes, on terms that it is confidential. An item such as this, for instance -- these deductions are before the Commission now. We have a tax proceeding stayed, as our brief says, at the moment; and





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I urge that it is not necessary to this Commission's duty to embarrass us by a cross-examination on this kind of matter.

THE CHAIRMAN: I think that figure is stated in your brief, as a matter of fact.

MR. PORTER: I did not state the figure. I intended to state it but omitted to do so.

THE CHAIRMAN: I thought you had either stated it or mentioned it in your opening remarks. I do not think Mr. Fillmore intends to go very far with that line.

MR. PORTER: I only raise it now. As a matter of fact I have not any objection to that figure, because I have a note here to put it in myself. I rise now not because I am objecting to that particular figure, but because I am objecting to that line of examination.

THE CHAIRMAN: Under reserve.

BY MR. FILLMORE:

Q. Your elevator reserves amounted to some \$6,000,000, and the commercial reserves to \$2,436,326?

MR. PORTER: I have the exact figures here if you want them.

BY MR. FILLMORE:

Q. Those reserves were invested in what? A. The elevator and commercial?

Q. Yes. A. The majority of the elevator reserve was invested in elevators, and a portion of the commercial reserve.

Q. And the balance was loaned to the elevator company? A. Used for working capital; yes, sir.

Q. And as a result of the unfortunate experience we have heard about in 1929, losses were incurred through overpayment to your growers? A. Yes, sir.

Q. The amount of the losses, I think, is referred to in



your brief, and it is also referred to in chapter 8 of section 32, statutes of Alberta --

MR. PORTER: That is the net loss, is it not?

MR. FILLMORE: Yes; the net loss is referred to as \$5,649,000. That item, I take it, is the amount guaranteed by the government?

THE WITNESS: Yes, sir.

BY MR. FILLMORE:

Q. But the actual loss was a little larger, as stated in your brief? A. That is right.

MR. PORTER: I think that is probably not right. The amount guaranteed by the government was larger than that, but part of it was repaid out of the proceeds of the sale of grain from other years, which was on hand.

BY MR. FILLMORE:

Q. You mentioned in your brief, or Mr. Porter mentioned, the statutes by which the right to demand repayment of commercial and elevator reserves has been restricted by legislation. Have you any plan now for revolving or retiring your elevator and commercial reserves? A. We have no definite, fully completed plan; no, sir, not now.

Q. Are you endeavouring from time to time to buy elevator and commercial reserves, and to transfer them to new members? A. If you will permit me to answer that question in this way, Mr. Chairman, I will say that it is the feeling of the delegates of the Alberta Wheat Pool, and the directors, and I believe of the large majority of the membership through these officials, that the ownership of the Alberta Wheat Pool, its facilities and the money invested in them should be in the hands of the people who currently need to use those facilities, and that as soon as we are able



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to do it we will repay the earlier contributors and let the men who are at that time delivering grain to the elevators and who need the use of them, be the owners of them. We will do that as soon as we can.

Q. You have not laid down any formula for doing that?

MR. PORTER: Is that question fair, or even proper?

I have explained that there is provision in the Act that has already been used for rotating up to 15 per cent.

THE CHAIRMAN: The future policy is not perhaps a subject for examination at this time. It is the actual operation.

MR. FILLMORE: Very well.

Q. I call your attention to the fact that according to your 1944 directors' report, you have purchased elevator reserves from estates up to July 31, 1944, in the amount of \$1,207,000? A. Not from estates.

Q. From estates and other former members? A. Purchased from all of our contributors.

Q. Then would it be correct to say that out of that amount you have redistributed \$256,525 to current members?

A. The figures are a matter of record; yes, sir.

Q. If your reports say that, that would be correct; and that would leave \$951,198 still carried in your balance sheet to the credit of elevator and commercial reserves?

A. I take it that is the proper figure.

Q. Have you paid interest on elevator or commercial reserves? A. Not lately.

Q. Is there any provision in your constitution or by-laws for paying interest? A. Under our contract there is one paragraph which specifies that this money may be used for the purposes of the association with or without interest.





Mr. Plumer

Q. And there is nothing you know of which offsets that situation? A. I do not.

Q. Following your losses, as you call them, in 1930, did you not adopt a new policy or method of doing business?

A. I do not know what you have in mind, particularly.

Q. I will make it more definite; I will withdraw that last question. Prior to 1930 were you operating your pool in the same manner as Saskatchewan was, for instance, as far as you know? A. In a general way I would say yes.

Q. That is to say, you had a contract, a copy of which has been submitted here, under which the grower undertook to deliver all his wheat to the pool? A. That is right.

Q. The contract did not cover any grain except wheat?

A. That original contract was a wheat contract, and the second one was a wheat contract.

Q. It provided, according to my information, that at the time of delivery or as soon as practicable you would make an advance to the grower of such a rate per bushel according to grade, quality and place of delivery? A. Yes, sir.

Q. And that you might, from available funds, make interim payments? A. Yes, sir.

Q. And then after making deductions, the deductions which you are allowed to make according to the terms of the contract, less advances and less handling and proper charges of every description, such as transporting, handling, grading, storing and other proper activities, you were to account to the grower for the balance of the purchase price of his grain. You would account to him for his proportion of the proceeds of all wheat of like variety and grade sold by the association in each season? A. That was our practice.

Q. That was your practice up until the crop season of



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1931. When the crop was delivered the proceeds or estimated proceeds were credited to the grower on a money basis; that is, his account in the ledger would show a credit of so much, in money? A. Yes, sir.

Q. In dollars and cents. Up until 1930 you did not have any system of giving credits to the growers on a bushel basis? A. Not that I remember.

Q. In 1931 your company passed a by-law, to which I believe Mr. Porter has referred. That was dated July, 1931. I think he read section 32, and I should like to call your attention to section 33, which reads in this way:

"The Pool will, during the crop year 1931, carry on the business of a handler of and dealer in grain, and will transact any business in relation to the purchasing, storing, handling and selling of any grain ordinarily transacted by grain dealers and elevator companies."

Was that by-law passed in July, 1931? A. I presume that is a correct copy of the by-law. I have not it before me, of course.

MR. PORTER: That is correct.

THE WITNESS: Mr. Fillmore, might I ask you with regard to your previous question, when you asked about credits, whether we had credited anything prior to 1931 -- you did not intend to include the deductions that had been made and were credited to members?

MR. FILLMORE: No. All I wanted to bring out was the credits to the growers, whatever they were, were in dollars and cents in the books of the pool. When he delivered his crop --

MR. PORTER: I wonder what credits you are talking about. There are two things. There was the patronage dividend, which

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was the product of the elevator handling, and there were the deductions for elevator and commercial reserves. They were in cash.

BY MR. FILLMORE:

Q. My only point is that the ledger account of the member in the books of the pool was in dollars and cents?

A. And bushels. We kept a record of the bushels. You know that; we kept a record of the bushels each man delivered each year, and the grades.

Q. Yes; you would have to specify the number of bushels delivered in order to arrive at the amount to which he was entitled? A. Yes, sir, that is true.

Q. Did you in 1931 act in accordance with that by-law; did you carry on the business of handler of and dealer in grain, the same as any other grain dealer or elevator company, as far as your business operations were concerned? A. We received the members' grain; yes, sir.

Q. And from non-members? A. Well, we operate under a public licence, you know.

Q. You hold a public country elevator licence and terminal elevator licence under the Canada Grain Act? A. Yes, sir.

Q. You had the required licences; and you were also licensed as track buyers and commission merchants, I presume?

A. I would have to ask the manager. I presume we are, yes.

MR. PORTER: That is admitted.

BY MR. FILLMORE:

Q. Then you bought grain from members and non-members, I take it? A. Yes, sir.

Q. And you paid the current market price to members and non-members? A. Yes, sir.



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Q. The same price to each. I take it you used the statutory form of grain ticket? A. Our form is approved by the Board of Grain Commissioners.

Q. From then on, from 1931 on, the growers were credited only in bushels in your ledger accounts? Take for example a man who sold street wheat and got his cash purchase ticket and got his money. The only remaining credit which he received on your books would be so many bushels of wheat, oats or barley, as the case may be? A. You will understand, sir, that in our handling of a bushel of wheat for our members, we make a payment of the going price, and the record is kept of the bushels received, and then you will know, too, that he participates in any further payment that is made later on.

Q. Yes, but you keep a record of the bushels which he delivers? A. Yes, sir.

Q. Because your patronage dividend later on is based upon the number of bushels? It is a flat rate per bushel? A. Yes, sir.

Q. Then the patronage dividend which was declared from time to time, as you have mentioned in your brief, was declared in the discretion of the directors? A. The delegates; yes, sir.

Q. The directors first and then confirmed by the delegates? A. The directors, in the light of the year's operations, recommend to the delegates, and the delegates pass on it.

BY MR. PORTER:

Q. They pass it or change it? A. Yes, or change it. Sometimes they do that, too.



BY MR. FILLMORE:

Q. I take it the earnings of your elevator company from time to time have been used for working capital, paying principal and interest to the provincial government, buying reserves and paying patronage dividends? A. In a general way I would say yes.

MR. PORTER: That, of course, is a very interesting question, the detail of which is made completely clear in the accounts which we have submitted to the Commission, and upon which Mr. Ronald has been consulting our people, and I would rather take the answer that has been given in that way than to put this witness in the position of answering what is, after all, an interesting, combined legal and auditing question.

THE CHAIRMAN: We are advised that this material is available to us.

MR. PORTER: Yes, it is.

THE WITNESS: May I ask do you suggest, Mr. Porter, that I withdraw my answer?

MR. PORTER: Oh, no. I just wanted to point out that it is an answer which you are not qualified to make, without that advice.

BY MR. FILLMORE:

Q. Did your Pool get out a pamphlet called "The Story of Wheat"? A. I think that is a copy of it; yes, sir.

MR. PARKER: What date is that?

MR. FILLMORE: It is called "The Story of Wheat," March, 1944.

Q. I will read you part of what appears on page 33:

"In June of 1931 the three provincial pools divided into separate units in so far as future grain handling was





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concerned. A new policy of operation was inaugurated. The members were released from their contracts which had compelled them to deliver all their grain to be marketed on the pooling basis."

We have heard Mr. Porter's explanation, and this may be some of the loose language he is complaining about on that point.

"The elevator systems built up by the provincial pools place each one in a position where it can carry on under the new method of operation."

What was the new method of operation? A. I believe what you are interested in is the fact that each one of the pools was handling grain within its own province, and they were not associated through the central selling agency.

Q. That is one thing. Then in 1931 I take it, as far as the elevator operations themselves were concerned, you operated in the same method and the same manner as any other elevator company operated its elevators? A. There was no particular change in the method of operating the elevators.

Q. You were buying grain from members and non-members? A. Yes, sir.

Q. Just consider that a moment, Mr. Plumer. Before 1931 you only made an initial payment to your growers, did you not? A. Yes, sir; when we were pooling.

Q. But in 1931 you paid the market price, the current market price, to members and non-members alike? A. It takes no stretch of a farmer's imagination to put the present prices on the same basis, because they are fairly sure that with good operation they are going to benefit some more, so it is really an initial payment still.

Q. We will put it this way, that the farmer got the



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current market price, and he had the hope or expectation of getting patronage dividends later on if your operations were successful? A. I would put it in this way, sir, that the farmer receives the current market price as his initial payment at the present time.

Q. You can call it an initial payment, but as a matter of fact that is what he gets; the current market price?

A. Yes, sir; that is what he gets.

Q. The current market price is paid to members and non-members alike; and at the time you did not credit him with anything on your books except with the number of bushels delivered, that is where it was a cash deal. Where it was a cash deal, the only credit put to the member on the books was in the bushels? A. We kept a record of the bushels delivered; yes, sir.

Q. Your method was new to that extent, then, was it not? It was new in two ways? A. Well, it was new to an extent, or a little different to an extent.

Q. To the extent which has been mentioned?

MR. PORTER: I think there is some confusion here between entering and crediting on the record. You cannot credit a man with bushels.

MR. FILLMORE: Then we will take Mr. Porter's language and put it in this way.

Q. You made a record of the number of bushels delivered by the member from and after 1931? A. Yes, we made a record of it.

Q. Now let me refer to page 38 of this same pamphlet, "The Story of Wheat":

"Record of financial recovery. The wheat pool organizations of Manitoba, Saskatchewan and Alberta developed similar





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policies in the period following the discontinuance of pooling in 1931. The first objective was to re-establish themselves financially, and to do so the farmers were urged to patronize the pool elevator system in each province in order to provide surplus earnings wherewith to repay the obligations due to the provincial governments."

Is that a correct statement? A. Yes, sir; we did the best we could.

Q. You have been keeping up your payments? A. Yes, sir.

Q. And the money has come from surplus earnings of the pool? A. I would say yes.

MR. PORTER: That is again a question very much involved with what is before us.

THE CHAIRMAN: Where else could it come from, Mr. Porter?

MR. PORTER: We think it came from the depreciation reserve. That is the way our books have been kept. But that is all before the Commission, and they may weigh and examine that in the light of our conduct.

THE CHAIRMAN: Yes, it is a matter of argument.

BY MR. FILLMORE:

Q. Then in your 1930-31 report, Mr. Plumer, on page 7, I find the following under the heading, "1929-30 Pool." Here is the last sentence of the paragraph, which speaks first about the amount owing to the provincial government and how it is to be paid:

"We have, however, the privilege of applying any other payments we wish to make over and above the specified amounts, thereby reducing the debt interest charges. The earnings from the operations of our elevator system should not only cover the usual overhead operating expenses but provide a substantial



surplus to take care of our payments as they become due."

Was the report of the Canadian Co-operative Wheat Producers usually published with your annual directors' reports?

A. I think most of the time it was included in the same document, under the same cover.

Q. And do you remember that following the losses, in 1929, a delegation came to Ottawa to obtain the assistance and cooperation of the federal government in obtaining the necessary lines of credit? A. I do not remember what the particulars were.

Q. But do you remember that a delegation came here at that time to get some form of assistance? A. At what time was it?

Q. In 1930, I think. A. I do not remember the particular details of it, sir.

Q. Do you remember an announcement to this effect by Right Hon. R. B. Bennett, who was then the Prime Minister of Canada:

"The wheat pools of the three western provinces, which own nearly 1,600 country elevators as well as terminals at Vancouver and Fort William, will operate this year in the same way as privately owned enterprise."

Do you remember that being published in the report of the Canadian Co-operative Limited? A. If that is included in their report --

MR. PORTER: That is quite a memory test.

THE WITNESS: Remember, I was not on the central board at that time. I saw these the same as another member would see them.

BY MR. FILLMORE:

Q. In addition to carrying on an elevator business



Mr. Plumer

after 1931, you carried on what was known as a voluntary pool? A. Yes, for a number of years.

Q. And that voluntary pool, I believe, was small in volume compared with the total bushels of grain which went through your elevators? Are you able to confirm that?

A. The volume was small, yes; I think it was only from 1,000,000 to 5,000,000 bushels, or something like that.

Q. I am instructed that your 1931-32 report shows that the number of bushels of wheat handled by the Alberta Pool, the total number was 33,398,000, whereas the bushels in the voluntary pool totalled 1,838,000 bushels.

MR. PORTER: I am prepared to tender to the Commission a statement of those figures for the years in which that operation was conducted.

THE CHAIRMAN: That is about thirty to one, I suppose, as compared to fifty to one in connection with the Saskatchewan Pool.

MR. PORTER: It varies.

MR. FILLMORE: I want to make a correction. The figure given yesterday of 54,000,000 bushels in Saskatchewan in 1931-32 was for all grain. It should have been 46,884,000 bushels in connection with wheat, so that it would make it about forty-eight to one.

Q. Now let us take the period from 1931 to 1935. There was no wheat board; we had the open market in western Canada. I take it that you were buying grain from members and non-members, and selling the grain and acting as commission merchants and otherwise operating country elevators in the ordinary way? A. I think during that period we were buying grain in the country; yes, sir.

Q. And your growers' contracts covered wheat only?





A. The wheat contracts covered wheat only.

Q. You had no compulsory contract at any time covering coarse grains; or did you? A. Yes, we did.

Q. In what year? A. 1929.

Q. That was for one year only? A. My recollection is that it was a five-year contract but only started to operate for the one year.

Q. And from 1935 down to date you have been operating as required by the Canadian Wheat Board, have you not?

A. Whatever the dates are; yes, sir.

Q. But from 1935 to 1942 or 1943 we had what you might call two markets for wheat. You could sell in the open market or, if the price dropped down to the price guaranteed by the wheat board, you could deliver to the board? A. Yes, sir.

Q. But the wheat board took no control over coarse grains, I think, until 1943? You can check me on that if I am wrong. There is still an open market for coarse grains?

MR. PORTER: Under the ceiling.

BY MR. FILLMORE:

Q. There is both a ceiling and a floor now? A. Yes, whatever the regulations are.

Q. Until 1942 there was no floor price for coarse grains? A. I do not remember the dates.

Q. That can be checked. I take it that from 1931 on you have been hedging your purchases of coarse grains in the market? A. What was the date?

Q. From 1931 on? A. Some of it, I would say.

Q. Are you members of the Winnipeg Grain Exchange and the Winnipeg Grain Exchange Clearing Association? A. Yes, sir.



Q. And speaking of coarse grains, have you not been hedging the purchases, the same as any other elevator company?

MR. PORTER: Just a moment. "The same as any other elevator company"?

BY MR. FILLMORE:

Q. Very well; have you been hedging it? A. We have been hedging some of it, yes.

Q. And were you hedging your purchases of wheat up until 1943, when the government took over all stocks of wheat?

A. I would say some of it, I do not know whether we hedged it all or not.

Q. We will have to get that from somebody else, then?

A. All right. Whatever my advisers are agreeable to, the answer is yes.

MR. PORTER: I wonder if we need to go into our internal operations, about whether or not we hedged. It seems to me this is clear, that what my learned friend wants is an acknowledgment that when the open market system was in use, we used it. Whether we used it for every bushel, or whether we used it for some of our bushels, is a question that I think is entirely irrelevant. But we concede that we used it.

MR. FILLMORE: I am just trying to make the point that they were operating their country elevators in the usual manner and method.

Q. Since 1931 have you, in your country elevators, been making money from handling, storing, cleaning and dealing in grain, buying and selling grain? A. We have collected, I will say, the usual charges, under whatever arrangement we had with the wheat board and the going practice; yes, sir.

Q. Leaving the wheat board out of it for the moment, take the period between 1930 and 1935, and since then with





regard to coarse grains. Have you not been receiving revenue from handling, storing, cleaning and buying and selling grain?

A. We have received revenue, yes, sir.

Q. And in every annual statement which you have sent out to your shareholders you have had a profit and loss account? Perhaps you do not want to call it that --

MR. PORTER: Yes, in our case you can call it profit and loss, because in our case the issue is: whose profit?

MR. FILLMORE: You have had profits and losses.

MR. PARKER: That is interesting. Does my learned friend admit that his pool is operating on the basis that it makes profits?

THE CHAIRMAN: He admits the "profits" to his vocabulary.

MR. PORTER: I do not want to run around this word "profit." We will call it that, and we will argue about what it means.

THE CHAIRMAN: I think what he means is for his members.

MR. PARKER: That is another matter. I only ask if you admit that they make profits; that is all.

MR. PORTER: We will argue the law about that.

MR. PARKER: My learned friend wanted to make an admission; and if he wants to do that, let us make it clear so we will understand what it is.

THE CHAIRMAN: I think he simply indicated that he takes the word "profit" from the dictionary and includes it in his vocabulary.

BY MR. FILLMORE:

Q. In each annual report, Mr. Plumer, you have a statement headed, "Statement of operations for the year ended so and so"? A. Yes, sir.



Mr. Plumer

Q. On one side you have a column headed, "Elevator operating expenses and other revenue"? A. Yes, sir.

Q. And then at the end of the account you have the words, "Net undistributed earnings for the year"?

A. Yes, sir.

--- At 12.30 p.m. the Commission adjourned until 2.15 p.m.

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Afternoon Session

The Commission resumed at 2.15 p.m.

BEN.S.PLUMER examination continued:

BY MR. FILLMORE:

Q. Referring for a moment to the change in method after 1931, I would like to ask you this question. Before 1931, when you were operating the contract pools, did you give a participation certificate to the member delivering grain in which it was stated that the payment was an advance, and the certificate was issued to the farmer? I will put it this way. When the farmer delivered grain did he get a certificate called a participation certificate?

A. He got an additional payment.

Q..And did he get at any time a certificate of any kind?

A. You mean of the same type the wheat board is using now?

Q. I am not asking you about the wheat board at all; I am asking what the farmer got from the Alberta Wheat Pool before 1931, what he got from the elevator company when he delivered grain to the company? A. He got his initial payment.

MR. FILLMORE: If Mr. Plumer does not know, perhaps someone here who does know can answer that question.

THE CHAIRMAN: Either that, or you can call another witness. If you do not know, Mr. Plumer, say so and someone else will be asked the question.

THE WITNESS: Did we issue a participation certificate, Mr. Purdy?

MR. FILLMORE: I would rather have the manager say.

THE CHAIRMAN: Just say that you don't know, Mr.Plumer, if you don't know.

THE WITNESS: I don't know.





MR. FILLMORE: I would like to ask the question of the manager who is in charge.

THE CHAIRMAN: Are you going to put him on next?

MR. PORTER: He can answer the question now. It is only an operating detail.

THE CHAIRMAN: Perhaps you can put it in the record now.

MR. PURDY: Yes, we did.

MR. FILLMORE: What was stated on the certificate?

THE CHAIRMAN: Have you a copy?

MR. PORTER: No, but we can produce one.

THE CHAIRMAN: Was it similar to the Saskatchewan certificate?

MR. PURDY: Yes.

MR. PORTER: We will undertake to produce one.

MR. FILLMORE: I believe it was stated there that the payment was an advance payment or initial payment. Was the final sale price kept separate by grade, and the interim and final payments varied in amount according to the grade of the wheat or coarse grains pooled?

MR. PURDY: By our central selling agency, yes.

MR. FILLMORE: I would like to ask Mr. Purdy a question.

THE CHAIRMAN: Perhaps you can take him next when you have finished with this witness; otherwise it destroys the continuity of the record. Just as you please, however.

MR. FILLMORE: I would like to have that cleared up now.

THE CHAIRMAN: Will you please stand aside for a moment, Mr. Plumer.

R. D. PURDY,

being called and duly sworn,  
testified as follows:

BY MR. FILLMORE:

Q. Mr. Purdy, during the period --

THE CHAIRMAN: You had better qualify him. What is your



Mr. Purdy

position, Mr. Purdy?

THE WITNESS: Manager of the Alberta Wheat Pool.

BY MR. FILLMORE: Were you manager of the Alberta Elevator Pools Limited prior to 1931? A. I think it was March , 1929 I was appointed to the pool elevators.

Were you connected with the company before then?

A. I was.

Q. And you are familiar with the pooling operations that went on prior to 1931? A. Yes.

Q. When a member delivered wheat to the Alberta Pool Country Elevator prior to 1931, what did he get? A. He received an initial payment, assuming we purchased the grain.

Q. First he received an initial payment the amount of which had been previously determined by the directors or the management? A. That is right, according to the list.

Q. And that was not the current market price; that was the price which the management considered it safe to advance as an initial payment? A. That is right; it would be an initial payment.

Q. Did the man who delivered grain to the elevator get a participation certificate? A. That is correct; he did.

Q. Do you remember the effect of that?

MR. PARKER: It seems to me we are getting on to dangerous ground here.

THE CHAIRMAN: He will file a copy of the certificate?

MR. PORTER: Yes.

BY MR. FILLMORE:

Q. Was the final sale price kept separate by grade, and were the interim and final payments varied in amount according to the grade of wheat or grade of coarse grains pooled?

Q. Yes. That was established by our central selling agency and we in turn distributed the money.





Q. The grain in those days was all handled through the central selling agency? A. As far as the disposal of it was concerned.

Q. And the member who delivered eventually got settlement based, in the case of wheat, on the grade of the wheat?

A. That is correct.

Q. And of course there were a good many different grades of wheat? A. Yes.

Q. And he got final settlement based on the grade of coarse grains? A. One year only in pooling.

Q. The coarse grains were only pooled one year?

A. Yes.

Q. And the final payment also varied not only by reason of the grade but also by reason of the average price realized for the grain? A. That is true.

Q. Of that particular grade? A. Of that particular grade.

Q. So that the final settlement was the growers' proportion of the proceeds of all wheat of like variety and grade sold by the association in that season?

A. That is according to my understanding.

Q. After 1931 did any member who delivered wheat get a participation certificate? A. Yes, to the extent of our voluntary pools.

Q. Leaving that aside for the moment, aside from the voluntary pool, take a man who delivered wheat to the elevator and got a cash ticket, did he get a participation certificate?

A. No, he did not.

Q. And did he ever get a settlement based on the grade or average price for that season? Did he ever get a settlement representing his proportion of the proceeds of all wheat of like variety and grade sold by the association



in that season? A. No, he did not.

Q. The price paid to a member at the time he delivered his wheat, where he sold and got a cash ticket, was the current market price? A. Yes, subject to certain competitive conditions.

Q. After 1931 was the market price broadcast each day by the marketing association to the local agents of both pool and line elevator companies? A. Yes, that is correct.

Q. And that guided the local agents in the price they paid to all people who delivered grain to country elevators?

A. Yes, in a general way, subject to competitive conditions.

Q. Did not the pool agents report each day to your head office in Calgary the quantities of different kinds of grain purchased? A. That is right.

Q. And did you not, up until the last year or two, speaking now of coarse grains, hedge coarse grains on the Winnipeg market? A. To some extent.

Q. Would you not say that until the last two or three years most of the coarse grain was hedged on the Winnipeg market?

MR. PORTER: I do not think this is the occasion for examining into operating methods. Some companies hedged and some did not. It depends entirely on whether they want to carry the risk themselves.

BY MR. FILLMORE:

Q. Prior to 1931, when you simply made an initial payment and added an amount to the grower for the proceeds, there was not the same need to hedge that there was after 1931? A. Referring to wheat or coarse grains?

Q. Referring to coarse grains first -- no, I will refer only to wheat.



THE CHAIRMAN: Was there any change in your method after 1931?

MR. FILLMORE: Let us put it that way.

THE WITNESS: Yes, so far as wheat is concerned.

BY MR. FILLMORE:

Q. Wheat was the only grain pooled except for one year ?

A. Yes.

Q. So that you did hedge grain after 1931 where you did not hedge it before? A. Referring to wheat, yes.

Q. Would you mind explaining to the commission what is meant by hedging? What is the simplest form of hedging grain which is delivered to country elevators?

A. Each day as our agents report the purchase of wheat in the country, we use that as the basis of hedging futures market, assuming that we are using the hedging market, and that, in so far as wheat was concerned, subsequent to 1931, was the case.

Q. Just follow that through. When you hedge you mean that when a quantity of grain is reported you then sell an equivalent quantity in the futures market?

A. In the futures market.

Q. Tell the commission how you took off the hedge?

A. In due course, as the grain is moved forward to the terminal point and the warehouse receipt is available, it is customary to take off the hedge as against the actual sale of cash grain. We sell cash grain.

Q. You can then sell grain for cash and buy in an equal quantity in the futures market? A. Yes -- buy back the hedge that was originally sold when the grain was purchased.

THE CHAIRMAN: I must confess I do not fully understand the process. Will you tell us exactly what it is?

THE WITNESS: In the purchase of grain in the country





a report is made by the agents just referred to and we in turn endeavour to protect ourselves in the purchase of that grain through the sale again of the equivalent bushelage in the futures market to protect ourselves, because possibly over night it may fluctuate up or down as against the purchase of the day before.

THE CHAIRMAN: It would be on the other side of the market?

THE WITNESS: Yes. We purchase on the one hand actual grain in the country and sell futures for delivery through the Winnipeg grain exchange. The grain is ultimately shipped forward to the terminal point and with the warehouse receipt available we sell the actual cash grain to the mill or exporter or otherwise and buy back the hedge that we sold, the futures hedge we sold against the original purchase.

MR. BROSSARD: When you speak of the futures hedge, do you mean for future delivery?

THE WITNESS: It is a contract.

MR. FILMORE: In the future.

THE WITNESS: May or July or whatever month it may be.

BY MR. FILMORE: The object of that, Mr. Purdy, is so that you will not be speculating on the rise or fall in the price of grain?

A. That is the assumption.

Q. You speculate in order to avoid speculation; and before 1931, in dealing with wheat, as you settled with your grower on the basis of the average price and so on, there was not that necessity to hedge grain?

A. That is true -- wheat.

Q. Wheat, pardon me. After 1931 you maintained and carried on a small voluntary pool? A. Yes, that is correct.



Q. For wheat? A. Wheat only.

Q. Was that pool operated in the same way as the wheat pool had been before 1931? A. In the main, yes.

Q. When a member came in to a country elevator with a load of wheat, what factors would enter into his decision whether he would take the cash price or would enter the voluntary pool for that season? A. That was left up to him entirely to decide, and he signed a ticket indicating that he desired to pool that quantity.

Q. What factors would influence his mind in deciding one way or the other? A. I do not know that I can answer that question.

THE CHAIRMAN: Put it this way. Was there any advantage to him in disposing of his grain through the pool or through sale outright to you? Put yourself in the place of a farmer.

WITNESS: It would be a matter of price. That would be one of the factors. We made only an initial payment on the voluntary pools.

THE CHAIRMAN: And he would be taking a chance of getting some higher price if the pool were successful.

WITNESS: That is right, or a lower as the case might be.

BY MR. FILLMORE:

Q. On the other hand, he would just get the current market price? A. Yes.

Q. At the elevator? A. Yes.

Q. The members who sold at the elevator since 1931 simply got that day's price at the time. A. On the open market? Is that what you refer to?

Q. On the open market? A. On the open market.

BY MR. PORTER:

Q. When you were describing the original payment or





initial payment and participation certificate, that is the system in use now by the wheat board? A. Yes, that is true.

Q. The grower gets an initial advance plus a certificate saying that he is entitled to some more money if his wheat fetches it? A. That is right. It is the same system.

BY MR. STEER:

Q. Can you tell us what would be the difference between the current market price and the initial price paid the voluntary pool member? A. As to the amount?

Q. Yes, approximately. A. I am not sure as to the figures that were in effect, the initial payment figures in those years. We have them available, but I doubt if we have the market price available.

Q. Would it be true to say that the difference would be a cent or two a bushel, or three cents? A. It would be a greater spread than that.

Q. Five or six cents? A. Fifteen or twenty.

Q. In other words, a man who was in the voluntary pool would get as his initial payment fifteen or twenty cents less than the current market price of the day?

A. Those figures would be substantially right.

BY MR. FILLMORE:

Q. Now that you have mentioned the Canadian Wheat Board, Mr. Purdy, perhaps you are more familiar with its operations than Mr. Plumer and can therefore answer this question.

Up until September 1943 there were two prices; that is , there was the open market for all grains, but there was a floor price at which you could deliver wheat to the Canadian Wheat Board? A. The grower, not the pool.

Q. Well, the pool. I do not want to argue, but it is clear from the Canadian Wheat Board Act and the orders in council which were passed, that the wheat board used the



facilities of the elevator companies to buy grain when they did buy? A. That is right.

Q. But up until they took over all stocks of wheat, the pool elevators or elevator, or any other elevator, could sell wheat in the open market as usual, or you could say to the wheat board, "We cannot get more than the floor price; you take it at the floor price."

A. No; that is not right. Certainly the wheat board facilities were confined to the growers themselves and not the elevator companies in electing to board it or sell it on the open market.

Q. In some years there were quotas? A. Yes, that is right.

Q. I do not think I will pursue that further except to say that in September, 1943, the wheat board took over all stocks of wheat? A. Yes; that is right.

Q. And from then on no elevator company could buy wheat except as agent for the wheat board? A. Yes; that is correct.

Q. And each year you signed an agreement with the wheat board? A. Yes; that is right.

Q. And it is recited in the agreement that you are the agent for the wheat board? A. Yes.

Q. By the way, did you represent your company at the meeting of the Board of Grain Commissioners in July or August, 1944? A. I did.

Q. And did you advise the board that you were satisfied with the prevailing rates and prices? A. With the maximum storage rate and other tariffs.

Q. There was a meeting in Winnipeg on the 19th of July, 1944? A. Yes; I believe that is right.

Q. And there were represented there the different pools and line elevator companies? A. That is right.

Q. You being there for the Alberta pool? A. Yes.



Q. Did you state: "Assuming the present crop prospects are reasonably well maintained for the next couple of weeks, it is our intention in respect of country elevator facilities to file our operating tariffs on the same basis as in effect in recent months with respect to the 1943 crop and including a storage rate of one-sixtieth of one cent per bushel per day."

MR. PORTER: What are you reading from? If that is from one of the circulars we had better have it.

MR. FILLMORE: It purports to be a copy of what took place at the meeting but I will not ask him to remember his exact words. I do not suppose he could do that.

MR. PORTER: It sounds rather exact.

MR. FILLMORE: It purports to be, but I am not suggesting that he can remember his exact words. I will ask him this question:

Q. According to your recollection, did you state at that meeting that your company intended, in respect of these country elevator facilities, to file operating tariffs on the same basis as those then in effect? A. That is right; maximum tariffs.

Q. Did you point out that in order to operate elevator facilities you were in agreement that the storage rate be reduced to one-sixtieth of one cent a bushel a day?

A. We were prepared to operate at one-sixtieth.

Q. And you suggest that, in continuing to operate elevator facilities at such reduced storage rates for another season, you were taking into account another favourable crop in prospect in addition to existing stocks of grain in store? A. That is right.

Q. Did you attend the meeting in Regina of the pool representatives at which it was decided to reduce the handling charges, or was Mr. Plumer there representing your company?





A. I attended as one of the delegation from Alberta, yes.

Q. Was Mr. Plumer there or were you there alone?

A. No. We had several of our directors and officials.

Q. He was not there? A. I am not sure.

MR. PLUMER: I was not there.

BY MR. FILLMORE:

Q. Was it decided there, among those present, to recommend to each provincial pool that it undertake to make a substantial reduction in handling charges of all grains and that an effort be made to keep the charges as uniform as possible in the three provinces? Was that recommendation made?

A. Yes, without any stated amount.

THE CHAIRMAN: How soon was that after the other meeting that has been referred to?

THE WITNESS: The last week in September.

BY MR. FILLMORE:

Q. From July 19, to September 22. Then did your pool subsequently agree to the following basic change to become effective as of August 1, 1944?

A. We made it retroactive to August 1.

THE CHAIRMAN: Was your reason the same as that given by Mr. Wesson of the Saskatchewan pool? You were here yesterday, were you not?

THE WITNESS: Yes.

THE CHAIRMAN: And you heard Mr. Wesson?

THE WITNESS: Yes. It was substantially the same.

THE CHAIRMAN: The same reason; that is, you thought you had been making too much?

THE WITNESS: It was the most favourable year we had ever experienced in the handling of grain and that was the deciding factor.

BY MR. FILLMORE:

Q. There was no other reason suggested at the meeting?



A. As to the reduction?

Q. Yes?

MR. PORTER: Which meeting?

MR. FILLMORE: I am talking about the meeting in Regina.

THE CHAIRMAN: This last meeting in Regina when it was decided to cut the rate.

MR. PORTER: The question of cutting the rate was discussed without fixing the amount and then there was a subsequent meeting in Alberta at which our mind was made up. I want to keep those meetings segregated.

BY MR. FILLMORE: You, as the representative of the Alberta Pool, agreed to the recommendation, Mr. Purdy?

A. Well, we agreed to consider the recommendation. I will put it that way.

Q. You did not commit yourself? A. No; we did not.

Q. And you did have a meeting of your pool in Alberta?

A. That is right.

Q. And they decided to fall in with the recommendation?

A. At that time it was actually in effect in Saskatchewan and Manitoba, the reduction, and we decided to fall in line. I will put it that way.

Q. You mean you were unwilling partners?

A. I would not go that far, but we were in doubt as to the advisability, in Alberta's case, of making a reduction of two cents in the face of conditions.

Q. As a matter of fact, that reduced these handling charges below cost, in your view? A. As far as the actual handling costs are concerned, I would say Yes.

Q. And you had not been paying all your profits or earnings out in patronage dividends. You had other things to look after? A. Yes.

THE CHAIRMAN: You were not fully persuaded at that time?





THE WITNESS: We were persuaded that we had no alternative as a matter of fact, from the competitive standpoint, than to fall in line in view of the fact --

THE CHAIRMAN: To fall in line with Saskatchewan?

THE WITNESS: Yes, and Manitoba. All elevators operating in that province had made the cut. They were in effect at that date.

BY MR. FILLMORE:

Q. At the time you were in Regina there were no non-pool line elevator companies represented at that meeting in July? A. In Regina in July? No, in September.

Q. September, I mean. A. No.

Q. When was the decision made by Alberta? A. I believe about the 9th or 10th of October. It was made effective on the 10th of October.

Q. In the meantime, had Saskatchewan and Manitoba put the rate into effect? A. Yes, it had been put in some days before.

Q. Did they not put the reduction into effect before it was put into effect by any line elevator companies?

A. I am not sure. There was some question as to whether they did or did not.

Q. You are not sure about that? A. No.

Q. Before you put it into effect, did you ascertain whether the line elevator companies were going to put it into effect in Alberta? A. No. I do not think we did.

BY MR. ARNASON:

Q. I believe you said that in your opinion the reduction in handling charges would not enable you to meet your cost.

Were you thinking of handling charges? A. Yes.

Q. Your revenues from storage? A. Quite apart from storage or other revenues.



THE CHAIRMAN: Do you know whether that was true in the case of Saskatchewan?

WITNESS: I could not say, but I judge that would apply. That would be actual handling charges.

THE CHAIRMAN: You were reducing below cost?

THE WITNESS: As to that particular part of our operations, yes.

BY MR. FILLMORE:

Q. Was there a meeting with the Canadian Wheat Board last fall, in October or in August? A. I think it was in August.

Q. Were the handling charges which were going to be inserted in the wheat board contract discussed there?

A. As a matter of fact, I don't think we were represented at that meeting, our Alberta pool.

Q. However, you signed a contract providing for a spread of three cents on street grain? A. Yes.

Q. And three on flax? A. Yes.

Q. And other handling charges as provided in the agreement? A. Yes.

Q. And then, I believe, in September 1943 the Canadian Wheat Board took over all stocks of wheat in storage in western Canada? A. That is right.

Q. And thereafter that wheat became known as crown wheat? A. Yes.

Q. How was settlement made for the wheat in store which the Board took over? A. It has been handled in exactly the same way, as far as we are concerned, as any other board wheat.

Q. Have they paid you, or did they pay the farmers? A. They paid us.

Q. On crown wheat? A. On crown wheat.



Q. And on other wheat prior to that, wheat delivered to the board was delivered pursuant to quotas or pursuant to the amount the board allowed the farmer to deliver?

A. Yes.

Q. And on that did the board settle direct with the farmer?

A. No, through the elevator company.

Q. They acted as buying agents? A. Yes.

Q. And you got your handling charges? A. Yes, storage and so forth.

Q. And interest on money -- A. That is correct.

Q. Which you would advance? A. Yes.

BY MR. PORTER:

Q. I want to deal with the question of cost and handling charges because the matter might not be clear. Now, Mr. Purdy, when an elevator company gets a bushel of wheat into its elevator there are several ways it makes earnings out of that wheat? A. That is right.

Q. One of these is storage, and another may be cleaning? A. Yes.

Q. Or drying or mixing? A. Yes.

Q. There is a variety of ways in which the elevator company may make money out of a bushel of wheat which it has in its elevator? A. That is right.

Q. That is why we hear about diversion premiums, the terminal elevator paying a cent a bushel because it can make some money over that cent if it can get that wheat into its terminal? A. Yes.

Q. That is one of the ways it makes earnings out of the wheat. It earns some money doing something with it?

A. It is considered to be a profitable operation.

Q. On this wheat you bought you had all these potential sources of earnings? A. Yes, that is right.





Mr. Purdy

Q. When you say that this cut from three cents to one cent reduced it below cost, do you mean that it put below cost the doing of the actual physical thing you were formerly paid three cents for or below the cost of doing with your wheat the whole operation?

A. No, the actual physical handling of the grain.

Q. Of that particular operation? A. Yes.

Q. The fact is that, as we now know, the other sources of earnings, notwithstanding that cut, are going to make it profitable to handle that grain this year?

A. Yes. I think that is correct.



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Mr. Purdy

Q. So that when you say it was below cost you mean that the actual physical job was below cost? A. Yes, absolutely, that one particular operation.

Q. In other words, if a man wanted to take me to his hotel as a guest he could take my trunk over for nothing, even if it cost him something, is that true? A. Yes.

Q. That would be a parallel case? A. Yes.

Q. Since Mr. Fillmore has raised this question, I should like to go over these charges and the record of this institution in connection with them. The old rate of storage, I believe, was 1/30th of a cent a day.

A. That is correct.

Q. That was the old tariff. A. Yes, that was the recognized old tariff.

Q. And that was cut next to 1/45th of a cent a day. A. Yes.

Q. Have you records with you to which you would like to refer in respect of these items? A. Yes, I have.

Q. When was that first done, as you recall? A. Taking country elevators storage rates, September 1, 1926-November 27, 1932, 1/30th of one cent per bushel per day. Then, from November 1932 to August 31, 1933, 1/45th of one cent.

Q. That is 1932. A. For the crop of 1932, or most of the crop. November 1932 to August 31, 1933, it was 1/45th.

Q. Yes. A. And then September 1, 1933, to August 31, 1935, it was back to 1/30th of a cent. And then September 1, 1935 to August 31 1936, one year, it was 1/45th of a cent.





Q. Yes. A. And September 1, 1936 to July 31, 1940, covering a period of four years, it was 1/30th of a cent; August 1, 1940 to September 4, 1942, it was 1/45th, and September 5, 1942, for the balance of the season, it was 1/50th. And up to February 1, 1943 that continued through.

Q. Yes. A. And then it was reduced to 1/60th.

Q. Reduced to 1/60th. A. Yes, that is country storage.

Q. The old handling charge, so-called, in the contract--as a matter of fact it is in the contract exhibited in our brief--was 5 cents; it was 5 and 6 cents, was it not? Was it 5 cents on the top three grades, and 6 cents on the lower grades? A. I think that is true, originally.

Q. And that was cut from year to year. It has wound up now at 1 cent for this year. A. Yes.

Q. We say in our brief that this organization has consistently pressed for these reductions when conditions warranted them, to the benefit of all farmers, pool and non-pool alike; do you wish to say anything in support of that position? A. Yes, I think that is correct. All our negotiations with the Canadian Wheat Board show that that is correct.

Q. Your negotiations with the Canadian Wheat Board would show it to be correct. A. Yes.

Q. There was a lot of wooden storage built, was there not, across western Canada - annexes? A. Yes, a great deal of it.

Q. And storage for 50,000,000 bushels of wheat built at the head of the lakes? A. Yes, correct.

Q. That is wooden storage? A. Yes.



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Mr. Purdy

Q. Did your organization contribute to that?

A. We did, yes.

Q. And a special tax concession was given all elevator companies under that, was it not - taxable companies? A. That is correct.

Q. By order in council? A. Yes.

Q. Allowing them to write it off in two years against revenue from whatever sources? A. Yes.

Q. And there was a guarantee given in that order in council that the board would not reduce charges until this had been written off, was there not? A. For a period of two years.

Q. For a period of two years. A. Yes.

Q. What position did you take with respect to that? A. We refrained from participating in that negotiation.

Q. What did you say about the necessity for maintaining the rate for two years? A. We said we were prepared to take our chances.

Q. Without maintenance of the rate. A. Correct.

Q. And that representation was made to the wheat committee of the cabinet. A. To the Hon. J. A.

Mackinnon, chairman of that committee.

Q. Now, Mr. Purdy, I understand volume has a great deal to do with the earning capacity of an elevator system, has it not? A. There is no question about that.

Q. The more bushels, the more revenue from handling charges. A. Absolutely.

Q. And the less movement, the more revenue from storage. A. Correct.

Q. And we have had more space, full space, for a



longer time, and more bushels to handle in the last two years than ever in the history of Canada; is that not correct? A. In the last two to three years, yes.

Q. So that the charges that may be sound in one year may be utterly unsound in the next year, depending upon the volume and the nature of the movement.

A. Correct.

BY MR. ARNASON:

Q. Prior to last fall was the invariable practice of charging the maximum tariff permitted by the Board of Grain Commissioners? A. No.

Q. Under what conditions did you depart from this? A. The board in July of each year fixed a maximum tariff and then, depending upon our negotiations with the wheat board, as I have indicated here, we operated below the maximum -- well, going back a number of years ago, of course 1/30th was the maximum. When we went to 1/45th the maximum was still 1/30th. Ultimately the maximum got down to 1/50th.

BY MR. PORTER:

Q. The whole scheme of the Canada Grain Act was to prevent people being overcharged.

THE CHAIRMAN: There must be a floor somewhere. It is down to 1 cent now, what is the floor?

MR. PORTER: For charges?

THE CHAIRMAN: Yes.

MR. PORTER: As far as the Canada Grain Act is concerned?

THE CHAIRMAN: I am referring to what the witness has mentioned, namely having it lowered to 1 cent as against three.





BY MR. PORTER:

Q. If you were sure of not having a shortage in storage you would not need a handling charge at all, is that not correct? A. Yes, that is correct. The Board of Grain Commissioners do not fix handling charges. That has never come within their jurisdiction; but storage charges and elevation, and all that sort of thing have -- but not the spread in respect of handling charges.

Q. The handling charge is a matter of agreement with the wheat board, when we handle board wheat.

THE CHAIRMAN: But not the storage charge?

MR. FILLMORE: That had better be cleared up.

THE CHAIRMAN: Yes, I think so.

THE WITNESS: The storage charge does come within the Canada Grain Act -- the maximum charge. But handling charges do not, and never have.

BY THE CHAIRMAN:

Q. That is at your discretion. A. Yes, that is correct. We have narrowed it, as we said, so far as board wheat is concerned, from the original, going back to 1923, of 5 cents and 6 cents, down to 1 cent as it stands today. And prior to that probably the spread was wider than even 5 or 6 cents. But it was never controlled by the Board of Grain Commissioners, under the Act.

Q. And while we are on this point, since 1931 has there been any difference between your operations and those of the line elevator companies? That is a general question, and it does not deal particularly with these rates. What is the significant difference, if any?

A. In so far as handling grain is concerned?

Q. Yes, your business operations. A. I would say there is no difference in the handling of grain.



It is a matter of the disposal of whatever comes out of it.

Q. Of the surplus? A. Yes, in a general way.

MR. PORTER: That is outside of the voluntary pools.

THE CHAIRMAN: We were told that some years ago, at the time of the Turgeon inquiry. I believe you were not so sure about Alberta, Mr. Porter; is that correct?

MR. PORTER: I could be in doubt, because I have been that way for years in respect of this grain business.

THE CHAIRMAN: You admitted that it was an involved problem.

MR. PORTER: Probably so.

BY MR. BROSSARD:

Q. Who took the initiative of convening that Regina meeting at which the possibility of a reduction of handling charges was discussed? A. That came about through our central board -- I do not know who would take the initiative. Each pool has a member on the board -- nine members in all, and it was all arranged through our central board that the meeting was called.

Q. Between the representatives of the three organizations? A. Yes.

Q. At that meeting was the extent of the possible reduction of the handling charges discussed? A. Do you mean as to the amount?

Q. Yes. A. Varying amounts were discussed.

Q. Was any agreement arrived at? A. No, it was left over for each to consider.

Q. But the principle of reduction was decided upon by the three organizations. A. Yes, we agreed that in practice some reduction should be made.

Q. But it was not considered that the reduction





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Mr. Purdy

would be the same for all three organizations? A. No, it was not.

Q. Were you satisfied, when you decided to make the reduction, following the reductions granted by the other two pools, that the reduction in earnings from the handling charges, or the losses which would entail, would be offset by earnings from other charges? A. We were reasonably satisfied that we were probably on the right side.

Q. But I understood you to say that you hesitated.  
A. Yes, we did.

Q. Not to make this reduction. A. correct.

Q. Why did you hesitate? A. For the reason that we had some doubt as to where the 2 cents might end us at the end of the season.

Q. You were not absolutely certain that that reduction would not mean a loss on general operations.

A. There was a possibility of it at that time.

Q. But you nevertheless decided to grant a reduction? A. We felt ---

Q. Decided to follow suit. A. We felt competitively in view of the fact that the other two companies had already put it into effect that we had very little alternative but to follow suit in Alberta, and take our chances upon what came up.

Q. You were forced by the competition of the other two companies to make that reduction, in other words.

A. I would not go that far, to say that we were forced in competition; but we were by comparison.

Q. I think you spoke about the reductions of the line companies. A. Do you mean a similar reduction?

Q. Yes, not to the same extent. A. They placed



in effect a similar reduction.

Q. But not to the same extent as the pools.

A. Yes, we are all uniform. We ended up that way.

Q. The reductions were made by the line companies to the same extent as the three pools. A. Yes, I think that is correct.

Q. Were they made before you made yours, or after you made yours? A. You are referring to Alberta?

Q. Yes. A. I am not clear as to whether they did it the same day. We informed them when we reached our decision as to what we were going to do.

BY MR. ARNASON:

Q. Was a reduction in handling charges made before the pools reduced their handling charges? A. We had reduced in Alberta to 5 cents from the first of the season. We never did operate at  $7\frac{1}{2}$  cents in Alberta, and we reduced it a further 2 cents.

Q. What happened to the other two provinces?

A. They carried on -- at least, I do not know whether I can speak clearly as to that. I think they had a  $7\frac{1}{2}$  cent spread for flax screenings. We disagreed with the principle of that, and I guess we were responsible for the 5 cent spread in Alberta from that standpoint. However, we were agreed on the 5 cent spread on flax in Alberta.

Q. I am not absolutely certain about this, but I think it was indicated yesterday that there was a reduction in the handling charges of flax made by the line elevator companies before any reductions were made by the wheat pools. A. You are referring to Saskatchewan?

Q. Yes.

MR. FILLMORE: It was suggested it had been done at some points, not generally.



Mr. Purdy

THE WITNESS: Our basis was in effect on August 1, 5 cents on flax, and without screenings being paid for.

MR. MILLIKEN: Not in the case of flax. Mr. Wesson said yesterday that flax was cut to 5 cents from 7 in Saskatchewan, but that the charges on grain had reduced frequently at individual points for years past.

BY MR. BROSSARD:

Q. You have given a list of variations in rates of storage charges for the last fifteen years. What is the reason for these variations from year to year in storage charges? A. I would say there would probably be quite a number of reasons.

Q. What are they? A. They are difficult to detail at this date, going back over the years. But each year when those changes were made, either up or down, there was a particular operating condition which we felt and the trade generally felt justified that change.

Q. And would such changes be common to all similar organizations? A. I would say common, yes.

Q. So that the rates would be the same throughout the trade? A. Yes, the rates were ultimately agreed upon.

Q. They were determined following agreements between the pools and the line companies? A. And the wheat board.

Q. And the wheat board. A. Yes, frequently.

MR. PORTER: Well now, I think that answer may be misunderstood.

BY MR. PORTER:

Q. You were asked as a result of agreement between the pools and the line elevator companies; was that why they reached a uniform basis, or was it a competitive





reason? A. I think competition is the proper word.

Q. It was not agreement; I never have been at one of those meetings where they sat down and agreed.

BY MR. FILLMORE:

Q. One more question. Did you not put it correctly before the Board of Grain Commissioners when you said:

"In our continuing to operate elevator facilities on these reduced storage rates for another season we point out that such is only possible as the result of another favourable crop in prospect in addition to existing stocks of grain in store in elevators and also on the farms."

A. Yes, I think that is correct.

Q. And you stated further:

"As and when grain stocks are reduced to normal figures as the result of increased export business or future light crops, consideration undoubtedly will require to be given to re-establishing storage rates at a higher level in an effort to maintain revenues on a sound basis looking to future elevator operations, and especially important in view of the considerable increase in operating expenses over recent years.

Did you make a statement to that effect? A. Yes.

BY MR. PORTER:

Q. And that statement you would now reiterate.

A. Yes, I would.

BY MR. FILLMORE:

Q. I should like to ask two or three questions about terminal elevators, and I think that perhaps you are in a better position to answer them than Mr. Plumer would be. I refer to your terminal elevator at the head of



the lakes. I believe it is operated by the Manitoba pool, is it not? A. Correct.

Q. And under a profit sharing arrangement of some kind? A. Yes, correct.

Q. And they operate the terminal elevator in the same manner as other companies operate terminal elevators, so far as you know? A. Yes, so far as I know.

Q. And receive your grain, and some grain from other sources. A. Yes.

Q. And they pay diversion premiums and collect diversion premiums? A. Correct.

Q. I do not know whether you wish to admit the amount, but you received several hundred thousands of dollars as your share of operations of that elevator for the year ending July 31, 1944? A. Yes, a substantial amount.

Q. Would you tell us briefly out of what operations the terminal elevator makes money? A. Well, from storage and mixing, to some extent, and drying, and fobbing charges, and elevation charges.

BY THE CHAIRMAN:

Q. They are generally called handling charges, are they not? A. They are tariffs that are dealt with by the Board of Grain Commissioners.

Q. Apart from storage, the only other charge is handling, is it not? A. And elevation charges.

Q. You do not call that handling? A. No.

BY MR. FILLMORE:

Q. Explain to the Commission in what connection the words "handling charges" are used in country elevators.

A. It is another name for an elevation and commission charge on a carlot of grain, under the Act. What is





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known as an elevation charge used to be on wheat  $1\frac{3}{4}$  cents, and then we allowed a commission charge of an additional cent, making  $2\frac{3}{4}$  cents on a carlot of grain. The alternative in purchasing that grain in store is that we deduct what is known as a handling charge -- the spread in there -- which covers risks in grade, and the use of the money while pending shipment forward, and inspection fees, and weighing, and all that sort of thing, as compared with a tariff fixed by the Board of Grain Commissioners in shipping a carlot of grain forward to the terminal on a special or consigned basis. It is an alternative to the tariff under the Act.

Q. Are you in charge of the operations of your terminal at Vancouver? A. Yes, I am responsible for it.

Q. And I take it that some revenue has been received out of the operations of that terminal from year to year? A. Yes; it is mainly storage at Vancouver.

Q. Have you any export business? A. No, we have not.

Q. None? A. No.

Q. You have no export department? A. No.

Q. Your grain taken into your country elevators and terminals eventually is disposed of either to the wheat board or, in respect of coarse grains, to the board, at floor prices, or else disposed of through regular channels. A. Yes.

Q. Which would include exporters such as the Saskatchewan Pool Export Department, or a line elevator exporter. A. Yes, there is a variety of ways.

Q. You have been receiving grain from members and non-members at your country elevators? A. Yes, we operate under a public licence at all points.



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Mr. Purdy

Q. And you have membership in the exchange and in the clearing house? A. Yes.

Q. And do you receive rents from agents' cottages? A. Yes.

Q. Are you in the coal, wood or flour business? A. We acquired a few sheds, coal and flour sheds, in the purchase of elevator properties. But we have not built any sheds ourselves. We do handle coal at a few isolated points.

Q. You receive some dividends or revenue, or whatever you call it, from the pool insurance company and pool agencies? A. Yes, our proportion.

Q. And you receive interest on dominion and provincial government bonds. A. Yes.

Q. I suppose you are more familiar with the accounting end of the business than Mr. Plumer would be? Is Mr. Plumer in the office all the time, or only part time? A. Part time.

Q. Are you more familiar with the annual statements than he would be? I want to ask some questions about memberships and patronage dividends, and I should like to ask whoever is in a better position to answer.

A. I think I am the proper person.

Q. First, as regards membership in 1939, you will recall that in that year the act of 1929 was amended by chapter 100, and it was provided that any person who has made an application to the board in writing may become a member if he is a grower, if he is not a member of the pool under section 5, and if he has between August 1, 1935 and the date of his application for membership delivered 500 bushels of grain, or such other amount of grain as may be determined upon, and if he has



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Mr. Purdy

acquired ownership or an interest in the commercial or elevator reserves, or both, totalling \$25; I believe that \$25 has been changed to \$5.

MR. PORTER: Yes, subsequently, but I cannot tell you the date. It is an amount which may vary, as the section indicates where it refers to such other amounts as may be from time to time fixed.

BY MR. FILLMORE:

Q. Between 1939 and 1941, until you declared a patronage dividend, did any member comply with those requirements? A. Yes, a considerable number.

Q. Are you in a position to give the increase in membership; I mean this, did you get new members in that period? A. Yes, we did.

Q. Have you any record of the number? A. I do not think we have that available; they increased from year to year.

Q. Was not your membership fairly stationary between 1931 and 1941? A. Until we changed our basis of membership, from 1931 to 1939, yes.

MR. PORTER: There was no basis in that year.

THE WITNESS: No basis, and one could not get in.

MR. FILLMORE: When?

MR. PORTER: Between the lapse of the provisions of the by-laws I discussed this morning, and the amendment of this statute in 1939, there was no way in which a farmer could become a member.

BY MR. FILLMORE:

Q. So that your business with non-members must have been considerable during that time, if you were not taking in new members. A. We did a percentage, surely.





BY THE CHAIRMAN:

Q. That is, there were no new contracts being written, and no applications being signed during that period. A. Correct.

MR. PORTER: We were not in a position where we could use the contract, and the contract was the basis of membership, and we had no other basis of membership available until 1939.

THE CHAIRMAN: I understand.

MR. PORTER: The reason was that the debt was so large in relation to the total assets that there was a period--and it will be recalled that it was a time of very low prices--when it was impossible to evolve a plan. There was no use inviting someone in if you had to reconstruct.

BY MR. FILLMORE:

Q. You say in your 1944 directors' report ---

MR. PORTER: Now, why do we not say that he states in the newspaper, or states in something else. These reports are not in, and I submit they are not available to this Commission.

BY MR. FILLMORE:

Q. Mr. Purdy, is this a copy of the 1943-44 annual report of the Alberta Wheat Pool? A.. Yes, there is no doubt about that; it is.

MR. BROSSARD: Are you filing it?

MR. FILLMORE: Yes, I will file it; but I would like to have it back eventually.

THE CHAIRMAN: Perhaps we can agree to that.

MR. PORTER: Let us be clear about this: my learned friend is trying to use this. If the Commission wishes to go into these matters we will be prepared to go into



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Mr. Purdy

them. I had hoped that we had an arrangement whereby these internal matters were all being dealt with by the internal organization.

THE CHAIRMAN: I thought so.

MR. PORTER: But if we wish to run it the other way, I just want to know what the rules are; either one suits me.

THE CHAIRMAN: We have been advised, Mr. Fillmore, by counsel and by the accounting branch that we have all the information necessary in that respect. I cannot see where cross-examination upon the details of these figures will advance our task very greatly. However, I do not wish to restrict you unnecessarily.

MR. FILLMORE: I will see if I can get along without it, for the time being.

BY MR. FILLMORE:

Q. Do you remember whether you got a lot of new members since March 31, 1939, when the Act was amended?

A. Yes, a substantial number.

Q. Would you suggest about 10,000? A. Yes, that sounds reasonable.

Q. Now, at the bottom of page thirty-three of your brief you say this:

"It is submitted therefore that the declared initial purpose that the Pool should function on capital belonging to its members so as to give them service at cost by returning the earnings to them in the form of a patronage dividend has been consistently adhered to except where that practice was prevented by the overwhelming necessity of postponing distribution on a bushelage basis to save the enterprise from being lost by the members who built





and used it."

You deal with patronage dividends at page thirty-three. I think that the first patronage dividend paid by the Alberta pool was in 1941, was it not? A. No.

MR. PORTER: It states at the bottom of page thirty-two of the brief that no patronage dividends were paid from 1928 until 1941. That refers to the time after 1928. The time preceding 1928 is dealt with in the brief.

MR. FILLMORE: Correct.

BY MR. FILLMORE:

Q. Just let me check over the patronage dividends, starting with 1930 and 1931. Did you put together 1939 and 1940, and 1940 and 1941? A. They were dealt with at our annual meeting; two years were dealt with at the one annual meeting.

Q. Your first patronage dividend was \$89,000.

A. Yes, approximately.

Q. On deliveries of 1938; and it was \$92,000 on the deliveries of 1939. A. That is approximately correct.

Q. And was that one-quarter of a cent a bushel paid in cash? A. Yes, in cash.

Q. Paid in cash on the basis of one-quarter cent a bushel. A. Yes.

Q. That is, on all grains. A. Yes, all grains.

Q. Coarse grains and wheat, without any regard as to grades. A. Yes, and to members only.

Q. And then \$470,000 was declared in respect of deliveries of 1940, is that correct? A. I think that was divided.

Q. And that was on a basis of 1-1/10th cents per bushel. A. That was the total, yes.

Q. On all grains. The cash was one-half cent



per bushel and the reserve three-fifths of a cent per bushel. A. Correct

Q. So that it would be divided about fifty-fifty, with a little more for reserves? A. Yes.

Q. Then, in 1941-42 you had declared a dividend of \$196,482; was that on the basis of one cent per bushel, or one-half cent where shipments reverted to non-pool terminals? A. Yes, that is right, on all grains.

Q. Was that all paid in cash? A. Yes, paid in cash.

Q. And in 1942 and 1943 the dividend was \$306,416. A. That is correct.

Q. And paid in cash on or about June 1, 1944. A. Yes.

Q. You authorized another distribution for the year 1943 amounting to \$1,351,808? A. That is the total amount, yes.

Q. Have you determined the basis of that? A. How do you mean?

Q. How much per bushel or cash in reserve. A. Subject to change, as to the amount.

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Q. Mr. Purdy, just referring to the question of membership again, is this a circular put out by the Pool, under your signature as manager, dealing with membership, dated February 1, 1945? A. That is right.

Q. It gives the conditions on which a man may now become a member. Among other things it states:

"We point out that in making application for membership there is no obligation placed upon the applicant, other than being bound by the constitution and by-laws, as well as the terms of the contracts which are signed, and the pool members are not bound to deliver the grain --"

and so on. Then it goes on:

"We desire to make it clear that if you are not a member it will be necessary for you to complete membership in this association prior to July 1 next, in order to participate in the distribution of this refund of excess charges for the year 1943-44, which may be available after any liability for taxes has been disposed of."

So I take it that a man who joins now, if he had delivered 500 bushels of wheat to a pool elevator since August 1, 1935, who acquired ownership in elevator commercial reserves amounting to not less than \$5, could then participate in the dividend that was last declared? A. That is right.

MR. PORTER: On the grain he delivered in 1943-44. That is a circular sent out in 1945, relating to deliveries in 1943-44.

BY MR. ARNASON:

Q. He would sign an application form for membership?

A. Yes, sir.

BY THE CHAIRMAN:

Q. Was a form sent to accompany this circular? A. No,





it was not.

BY MR. FILLMORE:

Q. Now I show you an issue of the Alberta Wheat Pool Budget of January 13, 1945, which contains an article headed, "Wheat Pool Accomplishments." This Alberta Wheat Pool Budget is the paper which is published in your office, is it not?

A. Yes. I would not call it a paper; it is a leaflet that is published in that form.

Q. Issued by the Alberta Wheat Pool, Calgary, Alberta, January 13, 1945? A. That is right; each week.

BY THE CHAIRMAN:

Q. Have you a printing subsidiary, as the Saskatchewan Pool has? A. No, we have not. As a matter of fact that is printed outside now. We did print it at one time, but it is printed outside now.

BY MR. FILLMORE:

Q. And does this give the wheat pool accomplishments?

A. That particular article?

Q. Yes? A. Yes, I will assume that is correct.

Q. It says:

"At the final session, Alberta Wheat Pool delegates' annual convention last November, R. D. Purdy, general manager, gave a complete resume of the pool operations --" and so forth. A. That is correct.

MR. PORTER: I think perhaps we can put that in a little better shape than it appears in the Budget, if it would be of any use.

THE CHAIRMAN: I do not think Mr. Fillmore wants any improvements in it.

MR. PORTER: I was thinking about improving it for the use of the Commission.



MR. FILLMORE: I would be glad to have it in any other form my learned friend wishes to give it.

MR. PORTER: There is just one copy there.

BY MR. FILLMORE:

Q. Are you a director of the company? A. No, I am not.

Q. You are just the general manager? A. Manager.

Q. Do you attend the annual meetings of the directors? A. I do.

Q. And of the delegates? A. I do.

Q. I mean all meetings of the board of directors? A. I would not say all meetings. I am usually present.

MR. PORTER: Explain that they last a week and my learned friend will understand.

BY MR. FILLMORE:

Q. Referring now, Mr. Purdy, to the patronage dividend declared for the periods 1938-39 and 1939-40, is it not a fact that that dividend was a great deal less than the earnings of the pool in those two years? I have the figures here, and the reference. A. Yes, I have the information here.

Q. Were not the net earnings for the year 1938-39 some \$508,057.13?

MR. PORTER: Why do we not just say they are substantially more? I am prepared to acknowledge that, as shown by the statements filed.

THE CHAIRMAN: That is all you want, I take it?

MR. FILLMORE: Yes. However, I do not understand the reason for any objection. In Mr. Purdy's statement of the accomplishments of the Alberta Wheat Pool, in this pamphlet issued in January, 1941 --





Q. Is that one of your documents? A. Yes.

MR. FILLMORE: At page 3, under the heading of "Other Accomplishments" I read:

"The wheat pools inaugurated the policy of full publicity in all their operations. Wheat pool elevators is the one grain-handling organization in Alberta whose records are an open book."

In view of that public declaration, I do not see why we should have any objection. If that is the Pool policy, I do not see why there should be objection to definite figures.

MR. PORTER: I do not think that statement should be made the subject of any laughter. That is one of the characteristics that distinguish a cooperative which has 56,000 members from the other fellows who do business, in most cases, outside the country.

THE CHAIRMAN: You would say that was a closed book?

MR. PORTER: I would say it is pretty well closed. We will find out more about it next week.

MR. FILLMORE: The fact that statements go out to forty or fifty thousand members seems to me hardly to justify the conclusion that the directors' reports and statements are matters of great secrecy. However, I will not pursue that further.

Q. Is it not a fact that in 1940-41 the net earnings were substantially higher than the patronage dividends?

A. That is correct.

Q. And is it not a fact that in 1941-42 the net earnings for the season were greatly in excess of the patronage dividends? A. That is right.

Q. And is it not a fact that in 1942-43 the net earnings for the year ended July 31, 1943, were more than twice



the amount of the patronage dividend? A. Approximately, yes.

Q. And in 1943-44 were the earnings more in line with the amount of the patronage dividend declared? A. Or the patronage dividends more in line with the earnings.

Q. Either way? A. I would say the latter; yes.

Q. And do your books show that you have, up to July 31, 1944, large net operating profits? A. Yes -- you mean undistributed?

Q. Yes; you have what your auditors call net operating profits, and I am suggesting that this very expression, and the amount related thereto will be found in the 1944 directors' report, at page 47.

MR. PORTER: It is not the auditors' report.

MR. FILLMORE: It is the report published by the directors.

Q. Then, Mr. Purdy, have you been present at any meeting at which the directors have decided to declare a patronage dividend? A. Yes, I have.

Q. And did they on that occasion have before them the auditors' statement up to July 31 of that year? A. You are referring to the last year?

Q. When the directors met to consider patronage dividends, did they have before them the auditors' statement up to July 31 of that year? A. Yes, each year.

Q. And that statement, I take it, would disclose the condition of the company at that time? A. Yes.

Q. That is, it would show -- ? A. As a matter of fact each of these distributions that have been made have been made with the approval of our delegates and presented to our delegates in annual meeting.



Q. But the recommendation of the directors was made after they had the company's operating statement before them?

A. Oh, yes; that is right.

Q. And they knew the liquid position of the company, the working capital, the current liabilities and current assets, and so forth? A. That is right.

Q. And the amount of the dividend, I take it, depended upon the financial position of the company at the time?

A. Yes, it does.

Q. And the cash dividend would be paid out of the ordinary bank account of the company? A. Yes, it came out of that.

Q. I mean the moneys available for payment would be the result of the company's operations, its revenues from all sources and expenses for the previous year or years? A. Yes, they were all part of the consideration.

Q. For example, up to 1940, owing to the company's position, they were not able to pay a patronage dividend?

A. That is correct.

Q. At the same time, between 1931 and 1940, they did have operating profits? A. And losses.

Q. But on the whole they made more than they lost, I believe? A. Yes; we accumulated something.

Q. And you were able to pay the interest to the government, the principal and interest due to the government on the loan? A. That is right.

Q. And did you buy any reserves until 1939? A. No; subsequent to 1939.

Q. Before that you were unable to do so? A. That is right.

Q. And since then your earnings have gone into paying





patronage dividends, paying the principal and interest to the government, buying reserves and increasing your operating capital? A. That is right.

Q. I do not know whether I covered this before, but did the Alberta Pool pay interest to contributors to reserves up until 1928? A. We paid it for four years. We paid it for the year ending August 31, 1926; August 31, 1927; August 31, 1928; August 31, 1929; four years on elevator reserves and only the latter two years on commercial reserves.

Q. Both at 5 per cent? A. Six per cent.

Q. And nothing since? A. Nothing since.

Q. As I understand it, there was no liability to pay and no arrangements made to pay interest on the reserves?

A. No; no commitment.

Q. There is one point I should like to clear up about reserves, and I can be checked on this. I believe the amount of the elevator reserves was actually \$4,996,595.15, and commercial reserves \$2,436,326.34, and that as the 1928 final payment, \$1,037,554.35 had been deducted, it was decided to add it back to elevator reserves, which was done in 1940, making the sum of \$6,033,655.39?

THE CHAIRMAN: Is that a question, Mr. Fillmore?

MR. PORTER: I think those figures are correct.

MR. FILLMORE: I really directed that remark to the auditor.

MR. PORTER: The addition of the 1928 overpayment, which brought up these reserves, is dealt with in the submission, and will be further dealt with in our presentation.

BY MR. FILLMORE:

Q. Have you any records showing the business with non-members between different periods of different years; I mean



the purchase of grain at your country elevators from non-members?

MR. PORTER: That is one of those facts which the Commission may have and my learned friend may not have, because it is essentially one of the tests under section 4(p).

MR. FILLMORE: We are not particularly interested in the answer as long as it is before the Commission.

THE CHAIRMAN: I think the answer to that is available to our accountant, if I am not mistaken. I have not seen the statement yet.

THE WITNESS: We have it available.

MR. PORTER: There is no limit on these statements; let me make that clear. I think the Commission accountant and our own accountant so far have got what they need; but if as the Commission proceeds it is found that anything else is necessary, it will be made available at once.

THE CHAIRMAN: Personally I do not see that anything has been overlooked so far.

MR. HOWARD: We are just trying to make sure that continues to be so.

MR. SCARTH: I trust that will be made reciprocal. I feel sure it will be, in view of Mr. Howard's remark.

BY MR. FILLMORE:

Q. Mr. Purdy, it is possible that in the operations of any year you might make money on higher grades of grain and lose money on lower grades? A. Yes.

Q. Or vice versa? A. Yes.

Q. That could happen? A. Yes, and it does.

Q. Particularly since 1935 has most of the grain delivered at your country elevators been purchased by way of the cash purchase ticket? A. Yes, I think that is correct





since 1935; certainly since 1940.

Q. Your voluntary pool was discontinued in 1935, was it not? A. Yes, that is right.

Q. And was not one of the reasons that the growers preferred to take the cash price at the elevator, rather than wait? A. The Canadian Wheat Board came into the picture in 1935.

Q. They only came into the operation to this extent, that there was a floor price on wheat. That is the only extent to which they came into the operation in 1935? A. And replaced our voluntary pool, as far as we were concerned.

Q. Why do you use that expression? Why do you say the wheat board replaced your voluntary pool? A. Because of the floor price being available to them as an alternative market.

Q. After 1935 they could either sell in the open market, if the price was higher, or they could sell to the wheat board? A. Which was not the case prior thereto.

MR. PORTER: The wheat board performs the very function that the voluntary pool did; it gives the man an initial advance and assures him the spread of the price over the period of marketing. That is reasonably obvious.

MR. FILLMORE: It is a pretty far-fetched analogy.

THE WITNESS: At the time it was a real fact, as far as our operations were concerned.

BY MR. FILLMORE:

Q. The real fact is that once you got a floor price, and the market price dropped below, then it paid to deliver the wheat to the wheat board? A. You could say the same thing in regard to the voluntary pool; yet that did not happen. That wheat came into the voluntary pool when the market was above the initial payment on voluntary pool wheat.



Q. But the man in the voluntary pool took a chance on the market going up rather than going down? A. Well, he did the same thing with the wheat board, with their floor price.

Q. He delivers to the board and deals with the board and gets his money, and he hopes that some time they will be able to give him something more? A. Exactly the same way we did our voluntary pool.

Q. And that did not apply to the wheat taken over by the Crown in 1943? A. No, it did not.

Q. It applies to coarse grains which you sell in the open market? A. That is true.

Q. But there was not a floor on coarse grains until 1942? A. The 1942 crop.

Q. And when, as you mentioned to Mr. Porter, there have been huge wheat carry-overs and all elevators have been crammed for storage space for some years? A. That is right.

Q. If conditions return to normal, competition for business is apt to become keener at the country elevators, is it not? A. I judge that is right.

BY MR. PORTER:

Q. There is just one matter to which I might call attention, Mr. Purdy. The overpayment, as finally settled in relation to our debt to the government, was something more than half of the total reserves, was it not? A. That is right; it was.

Q. And since the overpayment was made the organization has been annually paying to the Alberta government 5 per cent interest on the outstanding sum owing to the government? A. That is correct.

THE CHAIRMAN: What amount is owing to the government now, roughly?



MR. PORTER: It is something in the neighbourhood of \$3,000,000.

THE WITNESS: Approximately \$3,000,000.

MR. PORTER: I intend to file a schedule of payments under that debenture. The brief points out that it was amortized. It is not a series of bonds; it is a single bond payable at intervals, on an amortized basis, and I intend to file that so the Commission can see what progress we have made. In the meantime I wanted to make it clear that while we were not paying the reserves which the members in the main had got back by the overpayment, we were paying on the obligations of the company.

BY MR. ARNASON:

Q. Article 40 of your Act of incorporation by-laws provides for the purchase of reserves up to, I believe, 15 per cent of the total of the elevator and commercial deductions. At what rate were those deductions repurchased? Were they repurchased at 100 cents on the dollar? A. Yes, on the actual amount standing to the credit of each member. In 1942 we purchased 5 per cent, and in 1943 another 5 per cent. Last year we purchased a fraction less than the 5 per cent, in order to keep under the 15 per cent of the total. But that has actually been completed, in the purchase of the total of 15 per cent.

MR. PORTER: May I direct attention to clause 43, which reads:

"Each member and each assignee having an interest in the commercial and elevator reserves, or either of them, shall be bound to sell to the pool the percentage of such interest which the pool elects to purchase under clause 40."

So there is no basis but a par basis for it.





BY MR. ARNASON:

Q. I would like also to ask a question in connection with No. 42, dealing with patronage dividends. There may be a matter of policy involved here, but I should like to ask your opinion on this point. The opening paragraph reads:

"The directors of the pool may, when authorized by resolution of the delegates, provide for a refund of patronage dividends either in cash or partly in cash and partly in reserves."

Custom, of course, would dictate to the delegates the desirability of making a refund of patronage dividends when the company was in a position to do so, but I am wondering whether, from the standpoint of operating policy, you would see any objection if there were, shall we say, a more definite legal obligation to pay patronage dividends if the delegates had in any way the authority to defer the payment of a portion of those dividends in any year, even after they were declared. Do you get my point? At the present time it is left entirely to the delegates to direct the directors to pay patronage dividends? A. Personally I would say there would be an objection to that method, because of the obligation that would be definitely determined and perhaps, in view of subsequent developments, there might be some interference with the implementation of it.

Q. When you speak of the obligation, are you referring to the indebtedness to the Alberta government? A. No, to the member. If it were declared and payable at a subsequent date, it would be regarded as a definite obligation, and in the light of subsequent developments might be a serious problem.



Q. What subsequent developments would you have in mind? Would you have this in mind, that if the dividend were deferred for, say, three years, and then you had crop failure or something like that -- ? A. Yes, that is right; based on your operating results.

Q. That is the only contingency you would foresee?

A. Yes, I think that is the major one, at any rate.

BY MR. NADEAU:

Q. Is there any competition between the pools as to the buying of the wheat of their respective members? A. You mean as between the three pools? No; we are not operating in competition.

BY THE CHAIRMAN:

Q. There is no competition? A. No. Our facilities are restricted to Alberta, and we have two terminal elevators in British Columbia. The Saskatchewan Pool's facilities are restricted to Saskatchewan, and those of the Manitoba Pool are restricted to Manitoba, subject to the terminal operations.

BY MR. ARNASON:

Q. In your brief reference was made to the policy considered by the delegates in 1928, that is, of eliminating handling and service charges and deducting actual operating costs on a per bushel basis? A. Yes.

Q. But your brief and exhibits go on to say that the policy was not put into effect in view of the fact that it would tend to dislocate conditions prevailing in the trade. Has any consideration been given by your delegates in subsequent years, or more particularly in recent years, to the adoption of this policy? A. Yes, it is perhaps correct to say that, but I think probably our experience in 1929 eliminated that, because of what resulted. If that policy





had been in effect in 1929 all that would have happened would have been that our operating expenses would have been added to our overpayment, because we had no final payment to deduct it from. I think that experience of 1929 certainly modified our views with respect to that method of handling.

Q. So that the policy of adhering to the usual handling and service charges is about the only practicable one to follow, even though your object may be to render service at cost, as your brief says? A. Subject to prevailing conditions each year, we may modify our charges as has been indicated, in the way of storage and handling charges within the year.

BY THE CHAIRMAN:

Q. What is your association with the Co-operative Union of Canada, as represented by Mr. Good? A. I think perhaps that is a question Mr. Plumer, our chairman, should answer.

MR. PORTER: You mean do we belong or do we not belong?

THE CHAIRMAN: That is it, or do you live in the same pew?

MR. PORTER: We go to the same church, but we are not members at the moment.

BY MR. BROSSARD:

Q. In connection with an answer you gave a few minutes ago, as to the right of the delegates to either approve or disapprove of the declaration of a patronage dividend in favour of the members, you are familiar with the Act and the by-laws, and I am not; so I would ask you if possible to point out to this Commission under what provision, either of the Act or of the by-laws, the declaration of a patronage dividend by the directors is subject to approval or disapproval by the delegates? A. I think Mr. Arnason just read it, in section 42.



MR. ARNASON: You have reference to section 42?

MR. BROSSARD: Section 42 is in reference to the reserves; but in so far as the declaration of a patronage dividend is concerned, or in so far as the setting aside of a commercial reserve is concerned, where do you find that the delegates must approve?

THE CHAIRMAN: Clause (c) of 42.

MR. BROSSARD: I suppose it is a question of law, but the way I read paragraph 42 it is in reference to repayment out of reserves or out of refunds of the deductions made originally. In any case, that is a matter which can be left aside for the time being.

Q. It has been the policy of your pool, at any rate, to have these declarations of dividend approved regularly, during the last four years, by the delegates? A. On every occasion.

Q. So that the power of the directors is subject to the delegates? A. That is the way it has been administered, subject to the approval of the delegates.

Q. As I understood it, Mr. Purdy, at present all farmers in Alberta, whether they are members of your pool or not, receive the same price for their wheat? A. That is right, under the Wheat Board.

Q. The operations of your pool are similar to the operations of the line companies? A. We are agents for the Canadian Wheat Board in the same way.

Q. Your operations in regard to handling and storage are exactly similar to those in the line companies? A. That is right.

Q. If I am wrong in this you will correct me, but your earnings are derived from the following sources. Handling and storage charges, both from members and non-members?



A. That is right.

Q. Up until 1943, except for perhaps one or two years, they were also derived from profits made out of sale and re-sale of grain, either from members or non-members? A. Right.

Q. Your earnings are increased by the fact that you have the use of the elevators, which belong to the elevator company, without having to pay rent other than the charges on the elevators -- interest on mortgage, mortgage payments and so forth, according to your agreement?

MR. PORTER: Under the lease.

THE WITNESS: Yes, under the lease.

BY MR. BROSSARD:

Q. But there is no specific rent, as rent, to be paid by your company? A. No, there is not.

Q. So that represents an advantage to your organization?

A. I am not quite clear there. You mean as compared to whom?

Q. As compared to others who under their leases have to pay a rental to the person from whom they are leasing? A. Yes, if there are others who are in that position.

Q. These elevators were purchased by the elevator company out of moneys subscribed by your own organization, out of deductions which were made from its members prior to 1929?

A. That is right.

Q. Which deductions now have become more or less frozen, until such time as the indebtedness to the Alberta government has been fully paid? A. That is correct.

Q. Another source of your earnings, if I understand correctly, is the income on your investments? A. Yes.

Q. You have also, as another source of income, the rents which you collect from a certain number of your employees,





for cottages rented to them? A. That is rather a liability.

Q. It is a small thing, if you like, but that is another source of earnings. Are there any other sources of earnings of your pool? A. No, apart from the regular revenues from the grain handling.

Q. May I ask you, then, if you consider that the patronage dividends which are paid to your members alone out of the net earnings coming from these various sources, other than the handling and storage charges received from your members or other than the profit made on the sale and resale of wheat provided by your members, constitute the refund of an overcharge to your members in respect of the operations they have made? A. Yes, I would certainly say it does.

Q. In what way? A. Based on the percentage of business handled for our pool members, as compared to non-pool.

Q. But do you think that constitutes a refund of an overcharge, or an overpayment in respect of the particular operations which they as members have carried on with the pool? A. Well, I think their contribution that they have made in the way of bushels of grain, as compared to our entire operations, in receiving the returns, it is certainly well within that.

Q. Do I take it that you mean that the portion of the net earnings which is paid over to them in patronage dividends does not exceed their proportion of the business that has been carried on by the pool? A. That is what I mean.

Q. Then what would you say as regards the reserves which are set aside? A. They are part of those reserves that we have accumulated, undistributed, from that portion of the business.



Q. But is there not a part of the reserves and a part of the patronage dividends which is either set aside or paid over to the members, which represent earnings which have not been supplied or contributed to by your members? A. No, I do not think so. Based on the percentage of members as compared to non-members, and based on our record of distribution.

Q. In other words, is there not a part of those patronage dividends that represent the revenue from savings made by the members or from replacements made by the members? A. You are referring to the amount paid, I assume, in asking that question?

Q. Then how do you explain your statement in the last paragraph but one of your brief, on page 38, where you say:

"The Alberta Wheat Pool is an attempt by members to put their capital into the hands of a legal entity to enable it, on their behalf, to reduce the cost of marketing the member customers' production."

What capital do you have in mind in making that statement?

A. The sum of \$8,000,000 odd that they contributed in the way of elevator and commercial reserves, in cash.

Q. So you do consider that your capital, and any earnings derived from the use of that capital, does not represent, if distributed, the refund of an overcharge? A. Certainly any facilities we have we provided through that medium, the contribution of cash deductions made during the earlier years in the marketing of grain under the old pool contracts, amounting to \$8,000,000 odd.

Q. In what way would you consider, Mr. Purdy, that the distribution of these earnings which come from other sources than the charges paid by the members, or from the profits derived from the sale of wheat or grain supplied by the members,





differ from payments made by a stock company to its shareholders? A. Referring to the non-member business?

Q. Yes? A. Well, I do not know that I can express an opinion there.

Q. You are not ready to state that there is a difference? A. No, I am not.

Q. Or that there is no difference? A. No; I do not think I want to.

Q. Would you be prepared to say that to tax such savings in the pools would amount to double taxation, and that such tax would differ from the double taxation which is imposed in connection with the income tax on dividends declared by a stock company? A. Well, it is double taxation, as we have stated in our brief, based on our set-up of savings for our members.

Q. Would you say there would be a difference between that double taxation and the other one? A. Well, I do, in view of the nature of our set-up and the contention advanced by our organization, which is that this money belongs to our members as savings.

Q. Therefore you deny the exactitude of the statement you have made, that the members of the Alberta Wheat Pool put their capital into the hands of a legal entity?

MR. PORTER: Into the hands, but not into the ownership. The sentence is perfectly clear.

MR. BROSSARD: That is a question of law.

MR. PORTER: That is it, precisely.

BY MR. BROSSARD:

Q. You do not deny that statement, in view of your more recent statements? A. That we have a legal entity?

Q. Yes. A. No. That is admitted.



MR. STEER: I have a very few questions.

THE CHAIRMAN: Will that conclude this case, then?

If it will, we will go on and conclude it now. Perhaps we could go on and finish to-day.

MR. STEER: I will not be very long, perhaps ten minutes.

BY MR. STEER:

Q. Wheat and flax are now covered entirely by these wheat board contracts; is that correct? A. That is correct.

Q. And as far as the function of an elevator company goes with respect to that contract, it is a warehouseman?

A. Correct.

Q. And it does not have any trading function at all?

A. No.

Q. With regard to coarse grains and with regard to the grain trade, apart from dealing with the wheat board, the situation is quite different, as I understand it. You, as an elevator company, go into the country and buy the grain at the country elevator point. It then becomes your property?

A. That is right.

Q. And you, as a merchant, have to decide into what position you are going to put that grain; that is, whether you are going to send it to Vancouver or whether you are going to send it to Winnipeg. And whether you decide on Winnipeg or Vancouver may mean gain or gains or losses of a considerable amount to you. Am I right in that? A. I would not say considerable loss. It is a risk, some risk.

Q. Losses which could not possibly be covered by any hedging operations of yours? A. That is true.

Q. So that in dealings which are not controlled by the wheat board there is a very important merchandising function to be performed by the elevator operator? A. That is correct.



Q. Which may lead, as you say, to profits or losses, and the amount of them we are not particularly concerned with at the moment. It seems to be quite clear, from the material that has been filed, that the profits of elevator companies have been extremely large since the outbreak of the war?

A. I believe that is correct, generally.

Q. Yours have been increased very materially? A. Yes.

Q. And I suppose it is true to say that a large part of that extra profit must be due to war conditions? A. Due to the storage paid by the Canadian Wheat Board, in the main.

Q. And that is due to the war? A. Yes, to the war.

MR. PORTER: That is surely a political question. We might have had the wheat board without the war. Certainly I do not know what we would have done if we had not had a wheat board, and we had to have crops as large as those we have had.

BY MR. STEER:

Q. Whether that is so or not, you do say that in the last few years you have had more grain to handle for a longer time than at any other time in the history of these companies?

A. More grain stored.

Q. And stored for a longer time? A. That is right.

Q. Are you prepared to say whether or not that is due to war conditions? A. No, I do not think I can say that.

Q. You would not say one way or the other? A. No, I think it is open to question whether it would be so or not.

Q. I suppose it depends upon the reasons back of the dominion government taking over control of wheat, through the wheat board? A. Yes, I would say so.

Q. And up to the time of the war they have not seen fit to do that? A. They were available but not acting.





Q. You are perfectly satisfied in your own mind that the reason the dominion government, through the wheat board, took over control of all wheat in September, 1943, was because of war conditions, are you not? A. Yes, in 1943; but we had a wheat board functioning and paying storage prior to 1943.

Q. Quite so; we have heard about that. I was interested in what you had to say about these annexes that were constructed and with respect to which special depreciation allowances had been made. I think you said that you took no part, or your company took no part, in those discussions? A. That is correct.

Q. I suppose the reason that you took no part in them is that you were not interested? A. We were interested.

Q. But not from the point of view of being a taxpayer; or were you? A. We were not interested in exacting from the federal government a definite contract for two years at the storage rates then paid.

Q. But any annexes that you built you would build out of your own surpluses; and, since those surpluses according to your contention were not taxed, you were not interested in how the income tax authorities were going to deal with the matter? A. We were discussing previously the storage annexes at the head of the lakes, but nothing to do with the company annexes, as to our position.

Q. But is it not true to say that, contending that you were free from income tax, you could not possibly have any interest in the attitude of the dominion income tax authorities towards the construction of those annexes? A. At the head of the lakes?



Q. Yes? A. Well, we did have an interest in respect to the storage rate ultimately decided upon.

Q. I am talking now about the special provision as to depreciation? A. Well, they were hooked up together.

Q. So you were interested in the storage rate, because you thought you had to have a free hand with respect to that? A. We felt we should have a free hand in this way, that we were prepared to provide our share of the storage without any guarantee as to rate, and take our chance with the rest; that is, without any fixed rate as to the storage.

Q. Is it correct to say that in July or August or September of last year, whenever it was, when these reductions in rates were put into effect -- ? A. That is the rate last year?

Q. We were dealing there with the months of July, August and September. You probably heard what Mr. Wesson had to say yesterday about the knowledge of the financial affairs of the organization which he would have at the time those meetings were held. I am going to suggest to you, Mr. Purdy, that commencing in July of 1944 you would have a pretty accurate knowledge of what your balance sheet was going to show in the month of September following? A. There was an undetermined amount that we did not know at that time.

Q. And would you be prepared to say what the amount might be? A. It was quite a substantial amount that afterwards was disclosed.

Q. Was it such an amount, as Mr. Wesson says, as would bring about a sense of shame if you attempted to hold it for your members? A. No, I would not care to use that word. They were dealing entirely with different figures, more substantial than ours, naturally.





Q. Would you be prepared to say why it was decided to reduce the qualification in regard to the holding of reserves for membership in your organization from \$25 to \$5? A. Well, I am not just sure what took place in those discussions.

Q. You were not there? A. It happened at the annual meeting three or four years ago, but various amounts were discussed. Some of them wanted it raised; some wanted it lowered, and ultimately it was left on the basis that the board had the power to alter the amount.

Q. I just suggest to you that the reason the \$5 amount was fixed was to make it easy to gather in new members?

A. That could be.

Q. Do you think that would be sound? A. It would be part of the consideration, probably.

Q. One of the statements you made was that you thought your company would come out all right on this reduced scale of charges? A. Yes.

Q. You recall making that statement? A. Yes.

Q. What would you say about whether or not your company would come out all right on the reduced scale of charges if you had continued to pay your 6 per cent interest on what is virtually your capital? A. Well, that would be an entirely different set of figures.

Q. You would not come out all right under those circumstances? A. Probably not.

MR. PORTER: It would depend on how much they made, surely.

MR. STEER: The figures are there, and if we add the interest charges for each of the years we would know whether you would make out all right or not.

THE WITNESS: This reduction that we are discussing is in regard to the 1945 crop.



MR. STEER: Yes.

THE WITNESS: It is not determined yet where we do come out.

BY MR. STEER:

Q. You would expect that if you charged up the interest on your capital, or the interest on your reserves, the picture would be a lot blacker than it might be otherwise? A. Yes, undoubtedly.

BY MR. FILLMORE:

Q. I overlooked one question, and I would like to have your indulgence to ask it. With regard to the declaration of dividends on a per bushel basis; taking the dividend declared for the season 1941-42, amounting to some \$790,000, is it not possible, in view of the carry-overs, that the wheat delivered by some members who got that dividend might still be in storage in your country or terminal elevators?

A. Well, I do not know how you would identify it over the years.

Q. I know it could not be identified, but in view of the carry-overs you have had from one season to another --

A. We have carried wheat at all times over the period.

Q. For one and two years? A. For one or two years; but we always have in store substantial quantities of wheat.

Q. Of course it may have lost its identity, but it may very well be that the wheat received from a particular member might not have been sold during the season in respect of which he got a per bushel dividend? A. That could happen; yes.

BY MR. PORTER:

Q. Just a question, arising out of this "warehouseman" statement. You told Mr. Steer that you are just a warehouseman, but I want you to tell the Commission what kind of



warehouseman you are. When you are running a terminal elevator -- for instance, to-day you take in wheat board wheat, and you may mix it and improve the grade? A. Certain grades; yes.

Q. You may mix No. 3 and No. 4 and make No.3? A. No.

Q. No, not No. 3 and No. 4? A. No. 4 and anything lower.

Q. You may mix No. 4 and No.5, and make No. 4? A. Yes.

Q. All the wheat in your warehouse belongs to the wheat board, does it not; every bushel of it? A. Yes, that is correct.

Q. So there is no trouble finding the owner, is there?  
A. No.

Q. But under the Canada Grain Act you get paid for No.3 when you turn that out, not for No. 4? A. Whatever we turn out.

Q. You get paid for the out-turn grade? A. Yes, whatever we deliver.

Q. Whatever your out-turn is; that is what you get paid for? A. Yes, sir.

Q. Not your intake. So you are the kind of warehouseman who keeps what you can make out of your customers' goods, if you can get the government to grade them out better than they graded in? A. Yes, I guess you are right.

Q. So that actually you are not a warehouseman in the sense that you return the identical article you got, at the same price and grade? A. That is correct.

Q. And the wheat board to-day owns all the wheat in the warehouse? A. Yes.

Q. That is the kind of warehouseman all companies licensed under the Canada Grain Act are? They make a profit





in improving the grade of the stuff in their custody?

A. Yes.

Q. And they take the loss, too; but they make the gain if there is one? A. That is right.

MR. PORTER: I think that is all. Now, my Lord, it may be that over-night an item or two will turn up. I have not had a chance to be sure I am through with Mr. Plumer, but subject to that --

THE CHAIRMAN: Would you like to have the case go over until the morning?

MR. PORTER: It may be that we may require five minutes in the morning. I will let counsel know.

THE CHAIRMAN: Very well.

--The Commission adjourned to meet on Thursday, April 26, 1945, at 10 o'clock a.m.

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Canada Corporation, Reg. Com. No.

ROYAL COMMISSION  
ON  
CO-OPERATIVES

1945

PROCEEDINGS  
(OFFICIAL REPORT)

VOLUME No. XXVII

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DATE April 26, 1945

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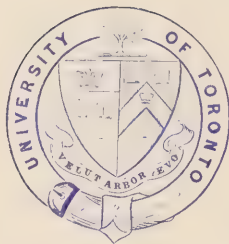


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ROYAL COMMISSION ON CO-OPERATIVES

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Ottawa, Thursday, April 26, 1945

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Local Co-operative Elevator Associations and  
Manitoba Pool Elevators

W. J. Parker, President, Manitoba Pool  
Elevators

Examined by Mr. Scarth (brief 7009) 7008

Mr. Fillmore 7054

Mr. Scarth 7112

Mr. Parker 7117



ROYAL COMMISSION ON COOPERATIVES

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The Commission appointed to inquire into the present position of cooperatives in the matter of income and excess profits tax, organization and business methods and operations, and the comparative position of persons engaged in business directly competitive therewith, met in Ottawa, on Thursday, April 26, 1945.

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PRESENT:

The Hon. Mr. Justice ERROL M. McDOUGALL, Chairman

B. N. ARNASON	}	Commissioners
G. A. ELLIOTT		
J. M. NADEAU		
J. J. VAUGHAN		

Eugene T. Parker, K.C.	Counsel
Roger Brossard	Associate Counsel

Major H. D. Woods	}	Associate Registrars
J. A. Chapdelaine		

Colonel G. W. Ross	Executive Secretary
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APPEARANCES:

R. H. Milliken, K.C.	Saskatchewan Cooperative Producers Limited, (Saskatchewan Wheat Pool)
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M. M. Porter	}	Alberta Wheat Pool
Ben. S. Plumer		

H. S. Scarth	}	Manitoba Pool Elevators
W. J. Parker		

George Church	President, United Farmers of Alberta
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G. H. Steer	}	United Grain Growers Limited
H. L. Griffin		
J. E. Brownlee		

W. H. Howard, K.C.)	}	Northwest Line Elevators
Cecil Lamont		
W. P. Fillmore		

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Ottawa,  
Thursday,  
April 26, 1945.

The Commission met at 10 a.m., Mr. Justice McDougall presiding.

MR. PARKER: I think we will proceed with the Manitoba brief this morning. Mr. Porter, it will be recalled, kept his case open, so to speak, but he advises me that he has nothing further to say, and unless some other counsel has any questions to ask, we will regard the case as closed and go on to Manitoba.

Submission of 180 Local Co-operative  
Elevator Associations and Manitoba Pool  
Elevators

MR. SCARTH: As you will remember, Mr. Chairman, in Winnipeg we presented four briefs by local associations in the country, namely Carey, Decker, Sperling and Arborg. They were four local associations of Manitoba Pool Elevators, and their submissions were made individually. This morning we are presenting a collective brief on behalf of 180 local co-operative elevator associations and Manitoba Pool Elevators. I will ask Mr. Parker to take the stand.

W. J. PARKER,

President, Manitoba  
Pool Elevators,  
having been duly sworn  
testified as follows:

BY MR. SCARTH:

Q. You are president of Manitoba Pool Elevators? A. Yes.

Q. Since when? A. December 1940.

Q. And you have been a director for how many years?

A. Since 1930.

Q. Prior to that time you were active in the local elevator association of Sanford for many years? A. Yes, from



the time of its organization.

Q. And you have been a farmer and producer down in that district? A. I am yet.

MR. E.T. PARKER: How was the brief prepared?

MR. SCARTH: This brief was prepared by you, Mr. Parker, and has been approved by your board of directors?

THE WITNESS: Yes; that is correct. It was prepared by myself in consultation with you and the auditor and in the course of its preparation it was submitted to the board. When it was finalized it was submitted to the board and formally approved. Before I start to read the brief, Mr. Chairman, I would make one observation with your permission. This brief has been prepared in some detail and, I think, with absolute frankness -- in more detail than is necessary to give you a clear picture of how the organization operates and what it has done. The board approves of the detail and frankness on the assumption, and in the confident belief, that before your Commission will draw any comparisons you will get as frank a statement from private and public companies operating in the same field.

MR. E.T. PARKER: You might advise the Commission how many of the officials of the 180 local associations have seen the brief.

THE WITNESS: None of them. Well, when I say none, I mean officially. Some have read the brief but I cannot say officially that each one of the 180 has had a copy yet.

MR. SCARTH: Will you be good enough to read the brief?

THE WITNESS: It reads:

"Origin of the Grain Cooperative Movement in Manitoba.

"1. The organization of the grain trade in western Canada dates from the late years of the nineteenth century;





trading in futures began in 1903. In those early years the grain growers complained bitterly of the abuses in the trade, and in 1899 the dominion government appointed a royal commission to investigate the complaints of the farmers. The outcome was 'The Manitoba Grain Act' passed in 1900, which remedied a number of the grievances but the farmers were not satisfied. They organized a grain growers association to insure the protection given them by the law, and later began to study proposals to set up a grain marketing company. This movement resulted in the formation of the Grain Growers Company in Manitoba in 1906, but the young company ran into serious trouble right at the start. Among its objects was the distribution of its savings by way of patronage dividends. The Winnipeg Grain Exchange, which the company had joined, declared this to be a violation of the rules of the exchange and thereupon suspended the company from membership. This was a prelude to a struggle in which the provincial government finally took a hand in support of the company. Ultimately, however, the company abandoned the proposal to include the payment of patronage dividends under its constitution, and was thereupon reinstated to membership in the exchange.

"2. The farmers of the western provinces then turned to their governments for assistance. They demanded a system of government owned and operated elevators. As a result in 1909 the Manitoba government under Premier Roblin, announced a policy of establishing and operating a line of elevators as a public utility. This announcement was received with wild enthusiasm by the farmers.

"3. By the end of 1910 the government had purchased and built 173 elevators. It did not purchase grain but merely took it into store to enable the farmers to ship it out in



carload lots.

"4. At a number of points the Grain Growers Company put buyers in the elevators at the request of the local farmers, and bought grain in competition with the elevator companies.

"5. The elevator companies made strenuous efforts to retain their business. They paid higher than the current market prices at these points, thereby giving to the farmers their first experience in real competitive buying.

"6. After operating the facilities for two years at a loss, the government leased the elevators to the Grain Growers Company, and then finally disposed of them.

"7. During the first world war the farmers had their first experience of collective marketing of wheat under an arrangement between the British and Canadian governments, with the distribution of the crops of 1917 and 1918 in the control of a specially created board of grain supervisors. The crop of 1919-20 was sold by the first Canadian Wheat Board. The latter system found great favour with the grain growers and when the government decided to abandon it, the farmers' organizations strongly protested and made vigorous but unsuccessful efforts to have it re-established during the years 1920-23.

"8. Disappointed in this effort and convinced of the value to them of organized cooperative marketing with a central selling agency, the farmers turned their attention to the organization of a contract wheat pool in each of the three prairie provinces with a central selling agency for all three. The contract in each pool provided for a deduction from the grain handled to form a fund for the building or purchasing of grain handling facilities. In the case of Manitoba, the wheat pool was incorporated under the name of 'Manitoba





Co-operative Wheat Producers Limited' by Chapter 130 of the statutes of Manitoba 1924, hereinafter called the 'Manitoba Pool'. The following year 'Manitoba Pool Elevators Limited' was incorporated by Chapter 113 of the statutes of Manitoba 1925, hereinafter called 'The Elevators Company', its primary objects as stated in the Act being:

'To erect, construct and acquire facilities for handling grain for Manitoba Co-operative Wheat Producers Limited and its members.'

"9. Between the years 1924 and 1931, the Elevators Company out of moneys supplied by the wheat pool, constructed or acquired 152 country elevators throughout Manitoba, and at each point where an elevator was acquired a local co-operative elevator association, hereinafter called the 'Association', had been organized by a voluntary effort, (details of the organization, capital structure and operation of the associations and the Elevators Company being more particularly set forth later in the brief). The elevators were leased to the associations by the Elevators Company with an option to purchase.

"10. The three western wheat pools unfortunately became some of the first victims of the great financial crisis of 1929-30 because of the unprecedented and precipitous decline in grain prices. They had paid out to their members approximately \$23,000,000 more than could be recovered from the sale of grain. In these circumstances the governments of Manitoba, Saskatchewan and Alberta came to the aid of the western wheat pools in their respective provinces, by guaranteeing to the banks to whom they were indebted, repayment of the moneys borrowed (for text of guarantee see Schedule "A" to Chapter 57, statutes of Manitoba 1931). As





security for the said guarantee, it was provided by Section 9 of the Act that the province should have a first lien and charge in priority to all other liens, charges or encumbrances whatsoever upon all the assets, real and personal of the Manitoba Pool and the Elevators Company. In Manitoba the liability incurred to the government under the guarantee was approximately \$3,400,000. The only realizable asset of the Manitoba Pool was the amount payable by the associations under their leases and options from the Elevators Company in the sum of \$2,400,000. The government under its lien took over the entire assets including the country elevator system and the Manitoba Pool was later forced into bankruptcy.

"11. By agreement dated the 1st day of August, 1931, and made between the various associations, pool elevators, the Manitoba Pool and the government of Manitoba (for copy of agreement see Schedule "A" to Cap. 52, S.M. 1932), it was agreed that the leases and options granted by the Elevators Company to the associations should be cancelled, and that the various associations should purchase from the Elevators Company their grain elevators for an aggregate purchase price of \$2,100,000, such purchase moneys with interest thereon to be collected by the Elevators Company from the associations and to be held in trust by the Elevators Company for the government, and to be paid over to it on demand. It was further provided that the government would accept the amounts payable by the various associations under the agreement, amounting in the aggregate to \$2,100,000 with interest thereon from August 1st, 1931, in full satisfaction of its claim against the Manitoba Pool and the Elevators Company. It will be noted that by Section 3 of the said agreement, it was agreed between each of the associations and the Elevators



Company as follows:

'Elevators Company (a) The Elevators Company will, from the 1st day of August, 1931, to the 31st day of July, 1951, superintend and manage association's elevator for twenty years. manage for the association the operation of the association's country elevator cooperating with the board of directors of the association to as great an extent as possible to insure the efficient and successful operation of the business of the association, the general manager for the time being of the Elevators Company to be also the general manager of the association.

'Elevators Company (b) The Elevators Company will establish and maintain the necessary facilities to carry out its obligations hereunder, including facilities for marketing the grain handled by the association other than pooled grain and for hedging and selling the same and will, so far as it can arrange to do so, finance the association and the marketing and handling of its grain, including making provision for terminal storage of the grain handled by the association. The Elevators Company will do the banking of the association and handle all the funds of the association in the name of the Elevators Company as heretofore.





'Association will pay Elevators Company its proportionate share of Elevator Company's costs and expenses on a per bushel basis.

(e) The association will pay to the Elevators Company all amounts disbursed by the Elevators Company directly or solely for the benefit of the association, and as well its proportionate share of the cost to the Elevators Company of the bookkeeping, recording, supervision and control of country elevators, the cost of stationery and all other expenses incurred by the Elevators Company of or incidental to the operation or management of the country elevators, including the elevator of the association, and in addition thereto, its proportionate share of all interest, banking charges or other cost of financing the operations of the various cooperative associations or the country elevators, and also the cost of providing terminal facilities for the handling of the grain of the various associations, and all other payments of whatsoever nature and kind made for or on behalf of the various cooperative associations, and such proportionate share of the cost shall be ascertained upon a per bushel basis having regard to the proportion which the grain handled through the association's country elevator bears to all the grain handled by the Elevators



Company for all the country elevators managed and operated by it.'

"12. It will be further noted that under Section 12 of the said agreement, it is provided as follows:

'Elevators	It is understood and agreed by and be-
Company is	tween the parties hereto that the pro-
agent and	visions of this agreement are subject
trustee for	to the provisions of "The Canada Grain
the various	Act" and that the Elevators Company is
parties.	an operating company only and is act-
	ing as agent and trustee for the var-
	ious parties hereto according to the
	exigencies of the relations between
	them and of this and all other agree-
	ments subsisting between the various
	parties, or any of them.'

"13. Since August 1, 1931, the Elevators Company under the provisions of the agreement has, as the agent and trustee of the associations, superintended and managed the operation of their country elevators, established and maintained terminal facilities at the head of the lakes at Port Arthur and Fort William, handled and marketed their grain, and has arranged for the financing of their various operations. "Incorporation and Organization of Local Pool Elevator Associations.

"14. As above stated, between the years 1924 and 1930, 152 associations were incorporated and organized in Manitoba, and between the years 1930 and the present time a further 28 associations were incorporated and organized, making 180 in all. Attached hereto and marked 'A' is a list of the associations and their addresses.





"15. The Sanford Co-operative Elevator Association is typical of the group. It was incorporated under 'The Co-operative Associations Act', being Chapter 8 of the statutes of Manitoba 1925. Attached hereto and marked with the letters 'B' and 'C' are copies of its memorandum of association and its by-laws respectively. By Section 445 of 'The Companies Act' being Chapter 5 of the statutes of Manitoba 1932 'The Co-operative Associations Act' was repealed and Part VI of 'The Companies Act' was substituted therefor, which said Act as amended is now Part VII of 'The Companies Act' being Chapter 36 of the Revised Statutes of Manitoba 1940.

"16. As shown by the said memorandum of association, the association was incorporated with an authorized capital of 1,000 shares of \$1.00 each, and it is provided by the said memorandum of association that:

'The business of the association shall be carried on on a non-profit basis, and no interest shall be paid in respect of capital stock.'

"17. At no time has any interest been paid on the capital stock subscribed by the members. Qualification shares only were issued to members, that is, one to each member, and later, namely by Chapter 8 of the statutes of Manitoba 1940, second session, the capital stock of all associations incorporated with authorized capital was cancelled, and the capital subscribed was declared to be a membership fund, and the word 'Limited' was deleted as part of their corporate names. Only producers of grain have been admitted to membership. No distributions have ever been made on a share basis, nor has interest been paid on share capital. Voting has always been on a basis of one member one vote.





"Incorporation and Organization of Manitoba Pool Elevators.

"18. As above stated, the Elevators Company was incorporated by an Act of the legislature of Manitoba, being Chapter 113 of the statutes of Manitoba 1925, with an authorized capital of \$1,000,000 divided into 1,000,000 shares of \$1.00 each. It was provided by Section 2 of the said Act:

'That the company should not commence business until at least ten per cent of the capital stock shall have been subscribed and at least ten per cent of the amount of stock so subscribed actually paid up.'

"In order to comply with this requirement, the Manitoba Pool subscribed for 100,000 shares and paid up thereon the sum of \$10,000, the minimum requirement under the Act, which constituted the entire paid up capital of the Elevators Company. By Chapter 26 of the statutes of Manitoba 1940, second session, it was provided:

'That the company should not have any capital stock or shares or shareholders, and that all of the capital stock of the company, issued or unissued, be thereby cancelled, and that the paid up capital of the company shall constitute a membership fund.'

"19. The associations are the only members of the Elevators Company. Each of the associations is a separate, distinct and autonomous body, and is governed by a board of seven directors elected from among its members. At their annual meetings each association elects from its members an accredited delegate to vote on behalf of the association at the meetings of the Elevators Company. The delegates have the exclusive right to vote at all meetings of the Elevators Company. For the purpose of electing directors to the board of the Elevators Company, the province of Manitoba is divided



into seven districts. At the annual meetings of the Elevators Company delegates from each district hold separate meetings and each district nominates a member from its district for election to the Elevators Company board. These nominations are then placed before the general body of the delegates as nominations to the board, and the board of directors is then elected by vote of the general body. The election of directors takes place annually, the term of office being only for one year unless re-elected.

"Method of Operation.

"20. The associations by their memorandum of association, 'The Co-operative Associations Act,' 'The Companies Act' and course of business have always been under an obligation to do business for their members at cost, accounting to them at the end of each year for any savings that may have been effected through the handling and marketing of their grain. All the associations incorporated prior to 1931 entered into contracts with the members for the handling of their grain, and all of such contracts contained a provision that the business of the association should be conducted on a non-profit basis, and that the growers should not be charged with anything on account of profit. Although the making of contracts was discontinued at the time of the financial crisis, the associations have always continued to account every year to their members for any savings arising out of transactions on behalf of the members, and have allocated and credited the savings to them."

I might explain that this is a distinctly different set-up from anything that you have had before your Commission so far, and it is rather unique in elevator operations. There was a contract between the growers and these different







associations that they would deliver all grain to the associations, and instead of having three cents or one cent or any other controversial figure, as indicated recently, we had an arbitrary deduction from the pool price of two and a half cents a bushel. That was phenomenal because the street spreads vary all the way from five to fifteen, seventeen and eighteen cents in general elevator operations. The Manitoba local associations adopted the basis of a straight two and a half cents a bushel but they had as protection a pooling contract, so that if at the end of the year the elevator produced a surplus on the basis of two and a half cents it was refunded as a patronage dividend. If it produced a deficit, enough money was deducted from the final payment on the wheat pool contract to make up that deficit. That was its protection and that is why it attempted to work on an arbitrary figure of two and a half cents.

"21. Under the provisions of 'The Canada Grain Act' the associations, as the operators of licensed public country elevators, have been required to receive all grain offered for storage without discrimination, but the associations have as far as legally possible abstained from handling grain of non-members. The member business for the past five years has been 96.77 per cent of total deliveries."

The average at the moment is 99 per cent plus. There is the odd mortgage company that has not taken out membership, perhaps a Hutterite colony, but generally speaking we are within shooting distance of a straight one hundred per cent.

"22. When a member delivers grain to the association at its country elevator, he is paid at the time of delivery what is between himself and his association, an initial



payment. The initial payment made to the member is on a basis of quantity and quality, leaving to be accounted for by the association to the members any moneys over and above the initial payment realized from the handling and marketing of the grain. The transaction, therefore, as between the association and the member is not complete at the time of making the initial payment, but remains open until the year end, when the association accounts to its members for all such moneys and allocates and credits them to the members accordingly.

"Special Reserve and Working Capital.

"23. As provided by paragraphs 6, 7 and 8 of the said agreement bearing date the first day of August, 1931, each of the associations agreed with the Manitoba Pool, the Elevators Company and the government that it would contribute to a reserve fund to be known as the 'Special Reserve' a sum or sums equal in the aggregate to 10 per cent of the total capital cost of the association's country elevator and other properties purchased from the Elevators Company pursuant to the agreement; such contributions to be made by deductions from any moneys of the association which might come into the hands of the Elevators Company as the result of the operation of the country elevator of the association, and the moneys as and when received were to be paid into a special account in a chartered bank or banks to be known as the 'Special Reserve Account,' and no moneys were to be withdrawn from the said account without the written consent of the provincial treasurer of the province of Manitoba. The special reserve fund was to be used in so far as it might become necessary to reimburse the government for any loss which it might otherwise sustain by reason of any of the associations being





unable to meet its payments on its elevator in any year or by reason of the failure of the Elevators Company to receive or pay or to account to the government for any portion of the purchase price of the country elevators sold to the various associations. And it was further provided that if and when the government should receive from the various associations as payment of the purchase price of the said elevators sums aggregating \$2,100,000, together with interest, the said special reserve or such part as should remain intact, should be repaid to the various associations, so that each association would receive back the portion contributed by it, or such part thereof as should be available for repayment after taking into account any deficit of the association, which might have been made up out of the special reserve.

"Working Capital.

"24. In the initial period from 1925-26 to 1930-31, the Elevators Company had virtually no working capital. As at 31st July, 1931, its paid-in capital was \$10,000, and it had accumulated a general contingency reserve of \$73,700, but these moneys were invested in furniture, fixtures and other frozen assets. Its working capital requirements during this period were obtained from the banks by way of loans guaranteed by the Manitoba Wheat Pool.

"25. The four party agreement became effective on the 1st of August, 1931, but contained no provision for supplying the Elevators Company with working capital. There was no wheat pool to guarantee the bank loans, so the Manitoba government generously advanced the sum of \$300,000 by way of callable loan, which the company used as liquid cash in obtaining its grain loans from the banks. This in itself was not sufficient to satisfy the banks, so it was necessary





to obtain from the Manitoba government a postponement of its first claim on the elevator properties. Fortified with this security, the banks still refused to finance our grain loans. We then appealed to the dominion government, and it came to our assistance by way of a dominion guarantee of our bank loans. With the credit of the federal treasury behind us the banks were satisfied to advance the necessary money to finance our grain loans.

MR. E. T. PARKER: They did not want the guarantee of the Bank of England too?

THE WITNESS: No. They had not thought of that. The picture has changed, though, Mr. Parker.

"26. During the first few years the associations operated on a strictly individual basis. Savings from the operations were refunded in cash to the members and deficits were recovered by assessments against the members. In the year 1931-32, however, the results were almost disastrous. The average volume of grain handled through the elevators was at an all time low. Thirty of the associations met all their obligations and showed a refundable surplus. Twenty-seven of the associations met all their obligations except a portion of their depreciation and capital repayments. The remaining ninety-four associations showed a deficit. The province extended assistance to the ninety-four associations by permitting them to add the deficits on operating expenses and interest to their capital debts, and by allowing the capital repayments to remain in arrears.

"27. Lack of working capital was still a major problem. The dominion government renewed its guarantee for the crop year 1932-33. The province agreed to leave the \$300,000 cash fund with the Elevators Company, and also renewed its



postponement of lien. Such accommodations though decidedly helpful could not indefinitely be depended upon. The farmer members were grateful for the assistance, but they desired to stand on their own feet. The only apparent solution was to postpone refunds of members' savings, and to retain them in a working capital reserve but allocated to the individual members.

"28. This experience in 1931-32 showed that the local associations could not continue on a strictly individual basis. Accordingly a supplementary agreement was entered into between the associations and the Elevators Company in the year 1933 providing that all revenues in respect of business of the associations coming into the hands of the Elevators Company should in each year be pooled and constitute one general fund from and with which the Elevators Company should in each year, in so far as the amount of the fund for that purpose would permit:

- (a) Pay the proportion of the operating expenses of all the associations which signed the four party agreement of August 1, 1931, which the associations forming the group were required to pay under the said agreement.
- (b) Pay to the government all interest due the Elevators Company on the purchase price of the elevators by all associations which entered into the said agreement or like agreements.
- (c) Pay to the government all instalments due the Elevators Company on the purchase price of elevators by such associations.
- (d) Pay into special reserve account the contributions to special reserve to be made by such associations as provided by the four party agreement;





and retain the balance until the Elevators Company shall have accumulated working capital in the amount of \$400,000.

"29. As at July 31, 1936, the working capital reserve showed a balance of \$227,600. Operations had been moderately successful and it was felt desirable to resume patronage dividend payments, as well as to fix the maximum contributions to working capital reserve of each association.

"30. These proposals were incorporated in amended supplementary agreements in 1936 amending the 1933 agreement as follows:

'2 (a) If by the first of August, 1936, the association shall have contributed to special reserve account a sum or sums equal in the aggregate to 10 per cent of the total capital cost of the association's country elevator and other property, it shall thereafter contribute to the Elevators Company on account of working capital, one-half of its net surplus, and shall be at liberty to distribute the balance of such net surplus among its members as a patronage dividend.

(b) If by the said first day of August, 1936, the association shall not have contributed to special reserve account 10 per cent of the total capital cost of the association's country elevator and other property it shall thereafter apportion any available net surplus as follows:

One-half to special reserve account.

One-quarter to working capital.

One-quarter to its members as a patronage dividend.

"After payment in full has been made to the special reserve account the distribution shall be as set out in sub-clause (a) hereof.



(c) The association shall not be under obligation to contribute on account of working capital a total amount in excess of 50 per cent of its total capital cost."

That fixed the maximum that any association would ever be required to put into the revolving fund for working capital. It is an arbitrary thing but it is 50 per cent.

"(1) When the association has contributed to working capital an amount equal to 50 per cent of its total capital cost, the association may thereafter distribute the whole of its net surplus among its members by way of a patronage dividend.

(2) If the association shall have contributed to working capital by the first day of August, 1936, an amount exceeding 50 per cent of its total capital cost, the association shall be at liberty to distribute the excess payment among its members by way of a patronage dividend.'"

That is required because two or three associations at that date had already provided a fund in excess of 50 per cent.

"31. When moneys for refunds first became available in 1936-37, it was decided that such refunds should be returned to the earliest contributors to the working capital reserve. This method has been continued regularly since that year, and is now generally known as the 'revolving fund plan.'

"32. As at 31st July, 1944, the working capital reserve showed a balance of \$1,635,400, of which \$1,600,300 was allocated to the credit of local association, elevator shippers' accounts, and \$35,100 to platform shippers. The amounts allocated to elevator shippers were as follows:





1940-41	\$	700.00
1941-42		1,900.00
1942-43		58,000.00
1943-44		<u>1,539,700.00</u>
		<u>\$1,600,300.00</u>

"This sum is within \$100,000 of the final amount to be contributed for working capital under the terms of the 1936 supplementary agreement.

"Summary of Operations.

"33. After providing for all expenses, including depreciation of \$3,440,750, total savings of \$7,688,550 have been allocated to the individual members in the nineteen year period of operations. All of these moneys have accrued from net revenues.

"34. As at January, 1945, \$3,209,150 of the above savings had been refunded in cash to the members entitled thereto, and the balance of \$4,479,400 was accounted for as follows:

Repayable to members (pending tax clarification)		\$1,991,000.00
(1) Savings invested in elevators and terminals		
A. Special Reserve	\$240,200.00	
B. Terminal Mortgage Debt repayable to contributing members in 4 annual installments bearing 5% interest	269,400.00	
C. Allocated surplus in respect of growers' equities	<u>343,400.00</u>	853,000.00"

Perhaps I should explain the terminal mortgage debt.

A year ago we still had outstanding between \$400,000 and \$500,000 of an outside mortgage on the terminal, and with a very large patronage dividend we recommended to the delegates at the annual meeting that instead of withdrawing all funds in cash and dissipating them in the way farmers may be inclined to do, it might be well to pay off the mortgage. We suggested, if they cared to, that they might devote part of the money to repay the mortgage owed outside and they





themselves took the mortgage on the terminal. That they did to the tune of about \$412,000, and that is being repaid under contract in five equal annual payments bearing 5 per cent interest, which they record as investment income on their personal income tax returns.

" (2) Working Capital Reserve

A. Elevator Shippers	\$1,600,300.00	
B. Platform Shippers	<u>35,100.00</u>	
		<u>\$1,635,400.00</u>
		<u>\$4,479,400.00"</u>

There are platform shippers who do not live within a radius where they may conveniently use the elevator association. They have carload lots and shovel over the platform and we accord them the same terms as are accorded through the elevator association, requiring them to build up a nominal amount on the retention basis the same as is required in the association. That is \$35,000.

"35. The amount 'repayable to members' as above \$1,991,000 is held in suspense awaiting the disposition of income tax appeals. Otherwise it would have been repaid to members in recent weeks. Thus the results can be re-stated as follows:

Savings refunded in cash	\$3,209,150.00	
Savings repayable to members	<u>1,991,000.00</u>	\$5,200,150.00
Savings retained in terms of agreements approved by the members (total of (1) and (2) above).		<u>2,488,400.00</u>
		<u>\$7,688,550.00</u>

"36. Unallocated Reserves. As at 31st July 1944 the following reserves had not been allocated to the local associations or to their members:



1. General Reserve	\$284,100.00
2. Terminal lease and purchaser reserves	<u>63,500.00</u>
	<u>\$347,600.00</u>

1. General reserve was accumulated over a fifteen-year period from 1925-26 to 1939-40, in annual amounts varying from \$500.00 in 1925-26 to \$38,300 in 1937-38, the average for the period being \$18,900 per annum. The purposes of the reserve are to provide the Elevators Company with a contingency fund to take care of windstorm or other extraordinary damages to country elevator properties, and to provide for unforeseen financial losses which may result from its transactions as agent for the local associations. The reserve has been maintained approximately at the above level since June 30, 1940."

We do not carry windstorm and cyclone insurance. It is one of the contingencies we provide for, and the reserve is a moderate one having regard to volume of business done and the risks incurred.

"2. Terminal lease and purchase reserves were established in two amounts, \$25,000 in 1935-36 and \$38,500 in 1937-38, in anticipation of possible losses in terminal operations which were not subsequently realized. The first amount was set up to provide for possible losses in the operations of two terminal elevators which were rented during the 1936-37 year. The second amount was set aside in view of the increased financial obligations resulting from the purchase of Terminal No.3 on 23rd July 1938, on which a mortgage debt of \$340,000 was assumed. In the event of an operating loss in any year, the amount of \$38,500 was available to cover the annual payment of interest and principal





on the capital cost of this terminal.

"37. These reserves are held by the Elevators Company as agent and trustee for the local associations, with their knowledge and consent. The local associations at any time can request that these amounts be allocated and paid out to the members who delivered grain in the years in which the reserves were established. The Elevators Company is in position to comply promptly with such a request, merely by completing a simple arithmetical calculation to determining individual shares in the reserves.

"Financial Data. Grain Handling Facilities.

"38. In the nineteen-year period from 1925 to 1944, grain handling facilities were acquired on behalf of the local associations, and related depreciation reserves were provided there against, as follows (in round figures):



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Mr. W.J. Parker

	<u>Cost</u>	<u>Depre- ciation Reserves</u>	<u>Write- off 1st August 1931</u>	<u>Book Value 31st July 1944</u>
Country eleva- tors, dwellings, etc.	\$3,708,300	\$1,952,300	\$295,600	\$1,460,00
Country stor- age annexes	474,500	474,500		
Terminal elevators	1,346,250	808,650		537,600
Terminal stor- age annex	205,300	205,300		
Seed Plant (in process of con- struction 31st July 1944)	<u>112,500</u>			<u>112,500</u>
	\$5,846,850	\$3,440,750	\$295,600	\$2,110,500"

First of all, I will explain the write off as it appears in the third column of this table. The overpayment in respect of the Manitoba Wheat Pool was \$3,400,000. The only asset the pool had was its interest in the association's country elevators. They had unpaid accounts of \$2,400,000, which left \$1,000,000. The government in its wisdom wrote off another \$295,600, and called it \$2,100,000 even. That is the so-called write-off. It collected all the money it could have collected, with the exception of approximately \$300,000.

Then, with respect to the \$474,500 under the heading "country storage annexes", that is completely written off now.

Then, the figure under the heading "terminal elevators" does not exactly correspond with the outstanding mortgage to the individual member; but the balance was financed within the company itself.

The figure under "terminal storage annex" is also

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completely retired at this date.

Then, coming down to the figures under "Seed Plant", may I say that nothing has been paid on that yet, because of the year's operations.

"39. Originally, the foregoing assets were financed as follows:

Period 1925 to 31st July 1931:	
Loans from Manitoba Wheat Pool	\$ 3,056,800
Period 1st August 1931 to 31st July 1944:	
Mortgages on terminal elevators	1,236,250
Working capital and other re-serve funds	<u>1,553,800</u>
	<u>\$ 5,846,850</u>

"40. During 1931, the province of Manitoba became the principal creditor in place of Manitoba Wheat Pool, whose assets the province acquired in connection with its guarantee to the lending banks to whom the wheat pool was indebted. At that time the capital debt of the Elevators Company was \$2,395,600, from which the province allowed a write-off of \$295,600, leaving a net debt of \$2,100,000. The Elevators Company in turn allocated this write-off to the local associations, in varying amounts aggregating \$295,600.

"41. Mortgages on terminal elevators, originally held by the various vendors, have since been paid off in full.

"42. The amount provided from working capital and other reserve funds includes the cost of country and terminal storage annexes which were built in 1940 and 1941 at a cost of \$679,800. This investment was recovered through accelerated depreciation charges against earnings of the years 1940-41, 1941-42 and 1942-43. Similar rates of accelerated depreciation were allowed to all other





grain handling organizations by the Income Tax Department in respect to temporary annex facilities."

That agreement was discussed in detail yesterday.

"43. As at July 31, 1944, the only debt owed to outside creditors was an amount of \$480,700 payable to the province of Manitoba. This debt bears interest at 5 per cent and is payable in annual instalments of \$95,262.26 principal.

#### "Tax Position

"44. Down to the year 1940, the exemption of the associations and the Elevators Company was never questioned by the Income Tax Department. In 1943 income tax and excess profits tax assessments were levied against three of the associations, namely, Roblin, Lenore and Lyleton, assessing them in respect of operations for the year 1939-1940. These were to be test cases to decide whether the amounts distributed by the associations by way of patronage dividend to their members were deductible from the income alleged by the department to have been earned in that year by the associations. These assessments are now under appeal.

"45. In 1944 the Elevators Company was assessed both for income and excess profits tax in respect of the associations' surplus, which had accrued from the year 1939-1940. This assessment has also been appealed.

"46. As the result of these assessments, surpluses in the hands of the Elevators Company for the year ending 1944 have been held in suspense but allocated to the individual awaiting the disposition of the appeals, or clarification of the income tax position.

#### "Forage Crop Seeds Department

"47. This department was organized for two principal



purposes:

- (1) Because of repeated requests for a cooperative processing and marketing agency for forage crop seed producers (members of our elevator associations), who were dissatisfied with the services rendered and prices paid by the existing seed handling companies.
- (2) There was an increasing realization among some members of our organization as to the place legumes and grasses must play in any permanent agriculture. It was quickly becoming apparent that Manitoba, in fact Canada, had a soil conservation problem of lesser magnitude but of equal relative importance to that of the United States, where the federal government is spending annually millions of dollars in trying to correct bad cultural practices.

"48. The Elevators Company acts as agent for ten co-operative forage crop seed associations, which are separately incorporated. These associations do not own local seed plants or other equipment, but the members send the seed to the central plant operated by the Elevators Company. Current prices are paid to producers at time of delivery. The Elevators Company cleans the seed to the grade standard required by the Dominion Plant Products Division, markets the product domestically and by export to the United States, Great Britain and Russia.

"49. Surpluses are allocated to the local seed associations and through them to the credit of the individual members as final payment on their forage crop seed deliveries.

"50. By agreements with associations and their members, part of the final proceeds has been refunded to





them in cash and part has been retained for working capital purposes.

"51. The department commenced operations on the first of July, 1939. The first year ended June 30, 1940, with a loss of \$10,917.50. The 1940-41 fiscal year also showed a loss of \$1,754.24. Much valuable experience was gained from the operations of these two years, and the Elevators Company absorbed both losses through its general contingency reserve, as a contribution to the organization and the establishment of the department. This contribution had the unanimous approval of the delegate body.

"52. In the three years since 1940-41, final payments of \$62,075 have been allocated to the credit of individual members, of which \$23,760 has been refunded to them in cash. The balance of \$38,315 is held to their credit in working capital reserve.

"53. During the past five years operations have been carried on in rented premises. In 1943-44 those premises were inadequate for the increased volume of deliveries, and also created some dissatisfaction among members by reason of their inconvenient location. It was therefore decided to build and equip a new plant in a locality suitable to the majority of producers, and this work was in process at 31st July, 1944. The new plant is now in operation, and deliveries for this year to date are in excess of the total handle of any previous year.

#### "General

"54. Farmers from the earliest settlers in western Canada have pooled their efforts by joining together to make community purchases of threshing machines, which were beyond the requirements and resources of the



individuals. At threshing time each farmer contributed his quota of man hours and teams for the fall's operations. The threshing machine moved from farm to farm until all the threshing was completed. In this manner they reduced their threshing expenses down to actual cost as the result of a cooperative enterprise.

"55. The acquiring of elevators for the marketing of their grain was but one more link in the chain of services required to enable the farmers efficiently to carry on and control their own farming operations. After the associations were organized it became apparent to the farmers that it was essential for them to acquire terminal facilities if they wished to retain the identity and control of their grain until it was finally disposed of.

"56. The present system of handling and marketing facilities has with many setbacks and disappointments been developed over a long period of years, and represents the goal which the farmers are striving for, namely, the right to handle and control their products through their own facilities until finally marketed.

"57. The growing of grain in western Canada has from its inception proved to be a hazardous enterprise. The major difficulties have been:

- (1) Climatic conditions, which take the form of extended periods of drought, wherein a farmer must annually work and seed his land, not knowing whether there will be sufficient moisture to enable him to reap a crop that will return him his seed.
- (2) Violent fluctuations in world markets over which he has no control, have left him in many instances with a bounteous crop which could not be sold at





prices sufficient to cover the cost of his operations.

- (3) All his equipment and farm supplies are purchased in a protected market, at prices which have been fixed by manufacturers and distributors to cover all contingencies.

"58. It follows, therefore, that a farmer bears all the manufacturing and distributing costs on his production equipment, as well as return on capital invested and any corporate taxes paid by the manufacturers or distributors. Yet he is forever being exhorted to increase his efficiency and lower his production costs in order to compete in the world's markets. The farmer rightly feels that his cooperative elevator is simply a piece of community farm machinery, which he and his neighbours use to improve their productive efficiency.

"59. Now a word as to the alleged discrimination because joint-stock elevator companies are taxed, and co-operative elevator associations are not subject to income tax. We submit that any income tax and excess profits tax collected from any elevator company is actually paid by the farmers who deliver the grain to that elevator. There seems to be a lot of unsound thinking in Canada that the farmer exists to provide profits for the service and secondary industries; not that these secondary and service industries exist to serve the farmer who produces the world's food. The joint-stock elevator company does a service for the farmer not primarily to assist the producer, but to make an earning on invested capital. The co-operative elevator is the producer's instrument or piece of machinery to enable him to produce more efficiently.





"60. For the last nineteen years farmers have been operating cooperative elevators in the pool organizations. During that period handling charges and street spreads have been substantially reduced. By reason of their experience and the results of these elevator operations, we have reason to believe that country elevators operating for fifteen years or longer must have repaid all capital cost - and in many cases, fat profits besides. Many elevators in the west have operated up to forty years.

"61. From our experience in the Elevators Company in the last five years, we would assume that any elevator company with reasonably fair management must have greatly improved its financial position, even after making provision for its income tax payment. The position of Manitoba Pool Elevator Associations because of the last five years' operations is simply that they have succeeded in paying their 5 per cent depreciation and operating expense. All moneys over and above that have been allocated as patronage dividends, thereby improving the financial and social position of the farmer members who collectively constitute the organization. Moneys so allocated are not reserves, but are debts to the members which are regularly repaid under the revolving fund plan. This is simply a method of internal financing. We could pay out these debts and finance our operations by external borrowings. We prefer to finance internally. Economists have said that the wartime increase in dominion public debt is not dangerous because 'we owe the money to ourselves'. We have applied this same principle in our financing by 'borrowing from ourselves'.

"62. The operations of the associations have benefited all farmers throughout the province, whether members



of the association or not, because their competition has forced improvements in services and a lowering of the charges of other companies.

"63. There are 380 shipping points in Manitoba served by elevators, and Manitoba Pool Elevators are represented at 183 points. The 180 cooperative elevator associations own 211 elevators out of 690 in Manitoba, or 30.58 per cent. Permanent storage capacity operated by cooperative associations is 33.5 per cent of the total permanent space in Manitoba. In the 1943-44 crop year our associations handled  $36\frac{1}{2}$  per cent of the grain delivered in the province, and at competitive elevator points only the cooperative associations received delivery of 55 per cent of the grain delivered at those shipping points.

"64. Since the inception of the Elevators Company, the policy of the organization has been to reduce handling costs as experience warranted. During the first six years of operations, the Elevators Company handled all grain in any quantity for the grower members for a flat service charge of  $2\frac{1}{2}$  cents per bushel. For the handling of grain in lots less than carloads this was a revolutionary departure from previous grain-handling practices.

"In the crop years 1932 to 1939 the Elevators Company operated on equal tariffs and charges with other companies. Generally speaking during this period grain production in Manitoba was much less in volume than in any period before or since.

"65. Since 1940 the Elevators Company has repeatedly recommended reductions in handling charges and storage rates in negotiating annual handling agreements with The Canadian Wheat Board. The record in this connection is as follows:





<u>Year</u>	<u>Handling charge per bushel</u>		<u>Storage rate per bushel per day</u>
1939-40	4 top grades	4 $\frac{1}{2}$ ¢	1/30¢
	4 Nor. & lower	5 $\frac{1}{2}$ ¢	
1940-41	4 top grades	4¢	1/45¢
	4 Nor. & lower	5¢	
1941-42	(same as 1940-1941)		
1942-43	All grades	3¢	1/50¢
1943-44	All grades	3¢	1/60¢"

May I point out that the figure 1/30 cents under the heading "storage rate per bushel per day" amounts to 12.2 cents per bushel over a twelve month period.

MR. E. T. PARKER: Is that the amount actually charged?

THE WITNESS: That was actually charged. Then, may I point out that the figure 1/60th of a cent per bushel per day works out at 6.1 cents per bushel when carried for twelve months.

"66. All the rate reductions indicated above were the direct result of recommendations made to the Canadian Wheat Board by the Alberta, Manitoba and Saskatchewan Pool Elevators. The reductions in 1942-43 were strenuously contested by the line elevator companies. They also objected to the reduction of the storage rate in 1943-44, and sent a delegation in protest to the Hon. the Minister of Finance at Ottawa. The Canadian Wheat Board adopted the Pool's recommendation, and the three pools signed the agreement."

Perhaps I might go back to the previous page, to give some idea as to what these reductions amount to in dollars and cents. We will omit the first two years, because that was a joint agreement and all companies were quite



satisfied to reduce the rate as in 1939-40 to what it was in 1940-41 and 1941-42. I will not claim any credit for that any more than the other companies may claim credit. But in 1942-43 I can say that the pools can take complete credit for the reduction to 3 cents, and the reduction to 1/50th cents per bushel. There was delivered to the wheat board that year 400,000,000 bushels of wheat, and the Commission can easily figure up the saving, as well as I can.

In 1943-44 the 3 cents was carried on, and the pools recommended and submitted by letter to the Canadian Wheat Board in respect of the handling agreement that we would do it for 1/60th, which is a reduction of 1.2 cents per bushel per year. There was delivered to the board that year 275,000,000 bushels of wheat.

There has been a great deal of fuss made about this crown wheat which is owned by the so-call Crown Company, and is handled under lend-lease, or in some other fashion. The inference has been that on the crown wheat some crown company paid the carrying charges and that in some way or another the pools have attempted to reduce handling charges and leave the Crown Company holding the bag. Well, the crown wheat taken over on September 27 was approximately 300,000,000 bushels. At the end of July, 1944 there was about 150,000,000 bushels left in that account. The average carry-over for that ten months was 225,000,000 bushels of crown wheat.

I do not know what the carrying charge should have been, but I submit to the Commission that we reduced it from 1/50th to 1/60th, which is 1.2 cents for twelve months. So that there were 225,000,000 bushels of crown wheat on which we saved the crown carrying charges





of 1.2 cents for twelve months. But even for the end of the grain year it amounts to 5/6ths of that cost for the ten months. Maybe we still charge too much today at 1/60th, but the point is that the pools have attempted to reduce the cost of carrying in store this quantity of grain.

Then, so far as the carrying charges in respect of any other wheat is concerned, the farmer pays them. It is not the Canadian Wheat Board or the Canadian government.

I should like the Commission to refer to the report of the Canadian Wheat Board, which has been tabled before the committee on agriculture. I refer to the report for the crop year 1942-43, part of which I should like to read into the record. This report shows that the carrying charges on wheat stored in country elevators, storage on wheat stored in terminal elevators, storage on wheat stored on farms and transfer of futures to deferred months totalled \$58,483,987.39.

That is in respect of the 1940 crop. This is still carried over in the grain year from August 1, 1940. This is the crop on which we finally got the payment from which all these charges were deducted.

Then, turning to Exhibit No.6, which is the crop account for 1941, from the period August 1, 1941 to July 31, 1943, we find that the storage charges paid by the Canadian Wheat Board on behalf of the farmers amounted to \$9,693,365.91.

Then, Exhibit No.7 in this report of the Canadian Wheat Board is for the 1942 crop account, for the year ended July 31, 1943, and shows total storage charges of \$8,159,900.33.





That is a grand total of better than \$76,000,000 which was paid on behalf of the farmers for carrying their wheat. Out of that there was paid in respect of the 1941 crop, paid in the year 1943, the sum of \$648,637.37 to the farmers for wheat storage in their own farm bins. And in respect of the 1940 crop there was paid to farmers the sum of \$6,147,457.89.

So that from the \$76,000,000 paid by the wheat board on behalf of the farmer to all companies, including ourselves, we may deduct roughly \$6,800,000 paid to the farmers, which leaves a net of about \$70,000,000 paid for carrying grain in storage.

"67. These reductions in the handling and storage charges per bushel, when multiplied by the bushels delivered by the producers in the respective crop years, amount to an appreciable sum of money which in effect increased the revenue of the farmers, and correspondingly decreased the revenue of the handling companies.

"68. For the crop year 1944-45 the three pools recommended a storage rate of 1/60th of a cent per bushel per day, and the other handling companies insisted on a storage rate of 1/50th."

That was when we attempted to get an agreement last summer.

"The wheat board asked for a compromise and the pools agreed to a storage rate of 1/55th. On that basis the agreement was drawn this year, and provided for a maximum handling charge of 3 cents per bushel."

I might point out that we filed a letter--the three pools--offering to do it again at 3 cents and a carrying charge of 1/60th. I should not say that the wheat board asked for a compromise; the wheat board were being most



improperly embarrassed, and so was the government, by having to pass orders in council under the War Measures Act to legalize an agreement to which some people would not consent. So we offered to split the difference between what some companies thought was a fair price, and what we thought was a fair price. So the compromise was ours; it was not asked for by the wheat board. They simply asked, "Gentlemen, can you reach an agreement?"

"69. In September 1944, when the three pool boards had seen the first draft of their respective financial statements for the crop year 1943-44, and had assessed the probable deliveries for the current year, it was realized that the handling charge could be further reduced without danger of operating loss. So, in keeping with our progressive policy of lowering charges to the farmer, we reduced our country handling charges by a further 2 cents a bushel on all grains and made corresponding adjustment payments retroactive to all those producers who had delivered grain to our country elevators from August 1 to September 30, 1944."

There has been a lot of controversy in the last two days about the so-called reduction. We simply raised the price on a bushel of wheat to the farmer. I can submit plenty of evidence to show that 3 cents never would carry a country elevator. No one can operate a country elevator at less than \$3,600 a year. That would pay only about \$50 a month to your agent. You would get up much closer to \$4,000 or \$4,500 when you are carrying a country elevator to handle roughly 100,000 bushels of grain. I would say that 3 cents is simply a nominal figure. It does not matter whether it is 5 cents, 6 cents, or 3 cents, or what it is. It never could





finance an elevator, and it is not true to say that it is running at less than cost. If that were all the revenue the elevators received they would all go broke at 3 cents, and would also all go broke at 5 cents. I say that because the actual cost of running these things is anywhere from 5 cents to 7 cents a bushel, and you have to get your revenue from some source other than what are known as handling charges or street spread at the elevator door.

If you are going to look over the figures you must look at them in proper perspective, and relate them to the storage earnings which may accrue in respect of other merchandising.

At this point I should like to read into the record a circular I sent out under date September 29, 1944. This was sent to all secretaries, and copies were sent to all presidents of our 180 local associations. Copies went to our agents, too. This explains what we did, and why we did it -- why we increased the price on a bushel of grain by 2 cents a bushel at the country elevator door for this year.

"Manitoba Pool Elevators was organized as a service organization, and our motto has been 'Service at Cost'."

Might I add that those words are printed on every elevator we have in the country -- "Service at Cost".

"Consistent with that principle, your management has endeavoured to operate your facilities so as to give to the growers the best service possible, and to set a service charge on the different grains and grades of grain, so that all member patrons pay their equitable share of costs of operation and protection against business risks.



"Through the years as we gained experience, and the farmers gained confidence so that our volume increased, the management has progressively reduced street spreads and handling charges, and at the end of every year gave an accounting to each of the members, allocating and paying all surplus overcharge made during the year as a patronage dividend.

"In the crop year 1942-43, our surplus savings proved to be much greater than had been anticipated, and some members questioned the policy of levying service charges which produced greater savings than seemed to be necessary to insure sound business. The 1942-43 grain year was in many ways abnormal, and it seemed not likely that the organization would repeat the experience in succeeding seasons."

Might I point out that I have twenty-four local associations in my districts, and so far as possible I try to attend their annual meetings when we give them their local balance sheets each year in the month of November. In November, 1943, when I was submitting the balance sheets for 1942-43 I had an old gentleman take a look at me, and say: "Young fellow, we do not pay you money as our director to pile up a great big balance sheet so that you can make a good fellow of yourself when you come to our meeting. We are organized for service at cost, and all we ask you to do is to maintain a safe business margin; and you are not making a good fellow of yourself by coming out here with 5 cents or 6 cents a bushel to offer as a patronage dividend." That came from one in the country who elected me, Mr. Chairman.





"We have just recently had from the auditors the balance sheet for the 1943-44 crop year, ended July 31, 1944, and again it is apparent to us that our savings are much greater than could be considered necessary for sound business procedure.

"We have recently conferred with the boards and managements of the other two pools, and they find themselves in a very similar position. As a result of that consultation, it was agreed that each board and management would review its own particular situation, first as regards savings of the last two years and secondly, the prospective volume of handle for the current crop year, with a view to determining if it was safe and advisable to reduce the handling charge to the grower."

It is unfair to say that you look at last year's balance sheet and determine the definite revenue of the succeeding year. That is all cock-eyed. All you can do is look at the results of last year in view of known conditions. In September--certainly not in July--in September Manitoba is harvesting. Last year we had several estimates as to the crop, and we had our own, plus those of other companies and other people. We know what our percentage normally is, and we can determine within a few millions of bushels how much grain we have good reason to expect to handle. We knew what was in storage on the farms and in public storage, and we had some fair idea of the possibilities in the transportation system with respect to taking wheat out of Canada. So that we could make a kind of estimate, at least, as to what our storage earnings might be. It was in the light of what had happened under certain conditions the previous year, and because we had a fair idea of what was in front of us





from September on, for the current year, that we determined that we could increase the initial payment to the grower and still maintain a safe business margin.

BY MR. ELLIOTT:

Q. Would you make a statement, Mr. Parker, about the uncertainties in respect of crop conditions? You know something about what may happen between July and September. A. In the first place this is not the grocery business, nor is it the drygoods business, where you may take an inventory and know what you have got. You do not know what the condition is going to be. You cannot determine accurately what your storage will be, from July; it is only an estimate. You have not got all information with respect to country elevators, and you do not know what your grade loss or averages may be. You may have a substantial grade loss -- you do not know.

You are not sure about it in September, but you are a little more sure at that time of the year than you are in July. In July we do not know what the crop will be. We have seen crops almost ready to cut, and then have them simply washed out of the picture. Those are the many risks with which you are familiar, having lived in western Canada.

Q. I just wanted to have that on the record.

A. Incidentally, that meeting of the Board of Grain Commissioners in July of that year was about a month earlier than usual. I challenge anyone to estimate in July what his potential earnings will be in the succeeding year in the grain business of western Canada. You can determine more accurately in September, but again it is an estimate. And I submit our estimates will provide us with a fair and safe business margin.



"It has now been decided by the Saskatchewan Pool and ourselves that for the present year, starting Monday October 2nd, wheat, oats, barley, rye and flax shall be bought in the country at a reduced handling cost of 2 cents per bushel.

"This year's handling agreement with the Canadian Wheat Board authorizes a maximum service charge to elevator and handling companies of 3 cents a bushel, and it is our intention now, for this year, that we shall handle wheat for 1 cent a bushel. An adjustment of 2 cents per bushel will be made as soon as possible on all grain delivered since August 1, 1944.

"I know our member growers will appreciate the fact that this lessening of our handling charge will mean more money when you deliver your grain, and automatically it means much less money in patronage dividends at the year end.

"I would like to assure our members that your board and management consider this a sufficiently safe operating margin for the current year. I hope you will understand that this is a condition that must be reviewed every year and that the excessively low handling charge is only possible because of the members' loyalty and the volume of grain that is being delivered to this organization.

"In another year when the volume of grain would be much less and marketing conditions are different, the handling margin will necessarily have to be increased again to maintain a sound business operation."

I submit it is only for one year. It may be 5 cents next year, for all I know.





"The Saskatchewan Pool are adopting the same action as Manitoba Pool Elevators, and the Alberta Pool still has the matter under consideration.

"May I emphasize again that it is only through the continued loyalty of the members and the large volume of grain which you are putting through your own facilities, that your organization has been able to offer an unprecedented low handling charge for grain."

That last paragraph is propaganda, Mr. Chairman. Then, the brief continues:

"70. Manitoba Pool Elevators pioneered in introducing and installing modern cleaning equipment. The gross bushels delivered to the Pool Elevators Company since 1925 was 307,955,452, of which total 99,374,463 bushels were cleaned. In some instances cleaning the farmer's grain made a grade gain for him. From the grain that was cleaned 336,591,114 pounds of screenings were taken out. Much of this was returned to the farmers for feed, and some of it was sold and brought additional revenue that way. Had this grain not been cleaned the freight costs for shipping the screenings to Fort William, estimated on the average freight rate of 17 cents per 100 pounds, would have amounted to \$572,204.89. The members of the associations feel that their cleaning machinery has been of inestimable value to the producers."

This organization pioneered in very expensive modern cleaning machinery in country elevators.

"71. Besides these direct and indirect economic advantages, the Elevators Company provides additional services to its members. A central library in Winnipeg with nearly five thousand volumes is available to any person living in Manitoba outside the urban areas,



which have public libraries. The Elevators Company pays the postage both ways on the books. We have some thirty-one boxes, each with about twenty-five books of good fiction literature, which we circulate among our associations. In addition, many of our associations have established shelf reference libraries in the elevator offices for the benefit of their members.

"72. We have 180 local boards, each of seven directors, meeting fairly regularly throughout the year. Besides doing the business of their associations, they constitute study groups which study all matters of community, provincial and even wider interests. Of recent years a great deal of study has been given to soil conservation, which is fundamental in any agricultural country. The Elevators Company joins with the United Grain Growers and the Canada Malting Company in rendering assistance to the junior seed growers' clubs organized under the provincial department of agriculture. In addition we had organized up to last year some twenty-eight crop improvement clubs with a membership of 417. These club members have obtained new varieties from the Dominion rust research laboratory at the Manitoba university. These clubs have propagated and distributed seed particularly suited to conditions in their own communities. In this manner the standard of grain production in many communities has been substantially improved.

"73. A great deal of study has been given by our association boards to community planning relating to post war projects, and for two years we have been servicing one of the National Film Board circuits in this province. Further information in respect to the educational activities of this organization may be found in the directors'





report for the year ending 31st July, 1944.

"74. Much study has also been given by our local associations to the matter of better health services and hospital facilities for dwellers in the rural areas of Manitoba. Our association boards have been in the forefront in the organizing of units of the Manitoba hospital service association.

"75. It is our contention that the associations and their trustee, Manitoba Pool Elevators, are service organizations owned and operated by the farmers, for the farmers, and in the interests of the farmers. Their sole and only purpose of existence is the betterment of the social and economic life of rural Manitoba."

I should like to elaborate one other thing, referring to the last two paragraphs which deal with social service organizations. They want service at cost; they do not want a surplus out of it. They want just a straight, sound business proposition, and that is all.

I am sorry that when the Commission was in western Canada it could not have found it convenient to hold meetings, not in Calgary, Winnipeg and Regina, but in some of the smaller towns and rural areas which constitute these organizations. I think in the last two days you have received a distorted view of what these pools mean, because they have been described as being colossal in size. I am speaking of the other two, of course; ours is only a tadpole in the puddle.

But may I point out that even that \$1,900,000 of last year belongs to 21,000 farmers. That is not \$100 each, on an average. Some of them get perhaps a dollar, or \$1.50. Then, some, of course, get \$400 or \$500, depending of course on the volume. But I suggest that





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Mr. W.J. Parker

the Commission should get the perspective. It is the individual farmer in the local community who is organizing cooperatively, and doing what the great liberal free press of this country is telling us to do, namely to produce efficiently so that we can export out of a protected market into an unprotected market. We are attempting to do that. We are also attempting to do a lot of other things which probably will never be done. But if you get only what you got in Calgary, Regina, Winnipeg and Ottawa, without thinking of those outside farmers, then I say you have got a wrong impression of the whole set-up of this pool organization.

I should have liked you to see some of the homes in which those people live, and see the kind of plumbing that they have not got, and the coal oil lamps the kiddies read by, and the schools they attend.

That is the argument, and with those words I would close what I have to say, leaving them for your consideration.

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THE CHAIRMAN: Mr. Scarth?

MR. SCARTH: I reserve the right to ask a few questions at the end, Mr. Chairman.

MR. E. T. PARKER: I think perhaps Mr. Fillmore had better proceed first.

BY MR. FILLMORE:

Q. As the statutes have been referred to previously, I will draw your attention to Part VII of the Manitoba Companies Act, that is the part that deals with co-operative associations. Limited liability is provided by section 132 (2); and sections 123 and 124 provide that Part II of the Companies Act applies--that is the part that sets out how an ordinary joint stock company may be run--mainly to indicate that the local association is a body corporate and politic. Then under section 1239 (3), I think it is, all the reserves may be retained if the by-laws of the association so provide. Now, Mr. Parker, have you a sample of the typical by-laws of the local associations?

A. I think they have all been filed with the Commission.

Q. I have not got access to them, and I would like to know whether they provide that the directors may retain any portion of the surplus. That can be looked up in the meantime.

MR. E. T. PARKER: A copy of the by-laws of one of the associations is attached to the brief.

THE WITNESS: It is only attached to the copies that the Commission have.

MR. SCARTH: I will furnish a copy to you, Mr. Fillmore.

BY MR. FILLMORE:

Q. Were you a director of the old Manitoba Pool,





Mr. Parker? A. Yes.

Q. The Manitoba Pool was the one that formerly conducted the grain business or conducted the pools, as they were called? A. As a selling agency only.

Q. It did business with the central selling agency, the same as the other pools? A. Yes.

Q. Did it have contracts with the growers? A. Yes.

Q. Did they provide for deduction of commercial and elevator reserves? A. Yes.

Q. Did they also provide that the pool would account to the grower on the basis of quantity and grade of particular grain for the season? A. Yes.

Q. Did it make initial payments, interim payments, and then a final payment? A. When it had the money.

Q. Did it issue participation certificates? A. Yes.

Q. And it made provision along those lines, I take it? A. Yes.

Q. The Manitoba Pool, as a result of losses in 1929, I believe, went into bankruptcy, did it not? A. It was forced into bankruptcy, but not in 1929.

MR. SCARTH: 1932.

BY MR. FILLMORE:

Q. It went into bankruptcy in 1932 as a result of over-payments in 1929 or 1930? A. That is right.

MR. SCARTH: 1930.

BY MR. FILLMORE:

Q. It does not matter about the year. Did it at the time it went into bankruptcy owe to farmers for elevator and commercial reserves approximately \$3,000,000? A. That is right.

Q. And it also owed the provincial Government about



\$3,400,000? A. That is right.

Q. The reorganization is shown in the Statutes of Manitoba, 1932, Chapter 52, I believe. Mr. Scarth can check that. Now, Mr. Parker, I do not find any provision made for paying back the farmers who had contributed to that amount of \$6,400,000, or, let us say, first, that amount of approximately \$3,000,000. What provision was made for paying back the farmers who had contributed approximately \$3,000,000 in commercial and elevator reserves?

A. What provision is usually made when you go into bankruptcy?

Q. I did not think the directors of the pool would then be taking the hard-boiled attitude of ordinary business men. I thought you were probably just as kind-hearted then and as solicitous for the farmers as you are now. Have you mellowed since then? A. No. Let us be realistic.

Q. However, no provision was made for paying back the farmers who lost their money then?

MR. SCARTH: If the directors had had the kindest dispositions in the world, I do not think they could have done that.

BY MR. FILLMORE:

Q. Manitoba Pool Elevators Limited was then owned by the Manitoba Pool, was it not? A. No.

Q. The shares of Manitoba Pool Elevators Limited?

A. No.

Q. Some of the shares? A. The Manitoba Pool advanced the money.

Q. Put it whichever way you want. The reserves were invested in Manitoba Pool Elevators Limited?



The elevator and commercial reserves had been invested by the Manitoba Pool in Manitoba Pool Elevators Limited?

MR. SCARTH: What do you mean by "invested"?

MR. FILLMORE: Loans or shares.

THE WITNESS: They were loaned by the pool to the local associations.

BY MR. FILLMORE:

Q. And when the bankruptcy was over, Manitoba Pool Elevators Limited had the assets, but they did not owe those liabilities? That was the situation, was it not?

A. Manitoba Pool Elevators, did you say?

Q. Yes. A. The local associations still owed the unpaid part of their liabilities, but to whom? Is that your question?

Q. Put it this way: the locals owned the country elevators and Manitoba Pool Elevators continued to own the terminal elevators? A. Didn't have any terminals then.

Q. In 1931 had no terminal elevators? A. I think not.

Q. However, the country elevators in which the local associations were interested had been purchased or partly purchased through elevator and commercial reserves?

A. That is correct.

Q. And after the bankruptcy was over the assets remained as before, but there was no one who owed \$3,000,000 to the farmers for those elevator and commercial reserves? A. So the Bankruptcy Court decided. It was covered by legislation later.

MR. E. T. PARKER: I do not know what that means. What did the Bankruptcy Court decide? That does not





make sense to me.

MR. FILLMORE: Of course the Bankruptcy Court does not decide anything.

MR. E. T. PARKER: He says it did.

MR. SCARTH: It is putting a witness in a rather difficult position to ask him about the most complicated thing in the world. Mr. Fillmore is now asking the witness to decide what may have been the liability of another company for the debts of the bankrupt company.

THE CHAIRMAN: It would be a moral obligation rather than a legal one.

MR. FILLMORE: I was referring to the moral obligation, in view of the interest that Mr. Parker takes in the farming community. His interest goes far beyond any hard-boiled business attitude, but apparently it did not in 1931.

BY MR. FILLMORE:

Q. Manitoba Pool Elevators Limited was incorporated-- I think it is in your brief--in 1925, chapter 113 of the provincial statutes. It is a limited liability company, under section 11; management by directors is provided under section 6; and it is a body corporate, under section 1. It is given very extensive powers. I would point out that it has power to do business of all kinds; you can find power to do almost anything, except that there does not appear to be any right to pay taxes. After 1931 did Manitoba Pool Elevators Limited acquire any terminal elevators? A. Yes.

Q. What terminal elevators did it acquire? A. We have acquired three, commonly called Pool 1, 2 and 3.

Q. Where are they located? A. Fort William and Port Arthur.



Q. What did they cost? A. I think it is stated in the brief. I have forgotten.

Q. I think the amount of the mortgage is in the brief, but I doubt if the amount of the purchase price is there. You have \$1,346,000--is that correct? A. That is the total.

Q. They have now been paid for? A. They have been paid for in full, yes.

Q. And paid for out of earnings of Manitoba Pool Elevators Limited? A. No.

Q. Does Manitoba Pool Elevators Limited operate those elevators? A. Yes.

Q. Has it operated them? A. Yes.

Q. And it has title to them? A. Held in trust as agent for the locals.

Q. Where do you find that trust agreement? A. The trust agreement is set up in the incorporation.

Q. Can you point to a trust agreement and to any paragraph in any trust agreement? A. I think it is in the four-party agreement.

MR. SCARTH: In the four-party agreement.

MR. FILLMORE: In what paragraph?

MR. SCARTH: It is quoted right in the brief.

THE WITNESS: Page 4, section 12.

BY MR. FILLMORE:

Q. This provides: "It is understood and agreed... that the Elevators Company is an operating company only and is acting as agent and trustee for the various parties hereto..." But where does it provide that the terminal elevators which might be acquired by the company might belong to the local associations? A. I am sorry, I did





not get the question.

Q. I will put it this way: is there anything further in writing dealing with the ownership of the terminal elevators? Do you know of anything else?

MR. SCARTH: There are two more clauses. The first is that they shall supply terminal facilities for the locals, and then that the locals shall contribute and pay the cost, which they have always done. They have paid all the cost.

BY MR. FILLMORE:

Q. Have those terminal elevators been operated in the same manner as other companies operate their terminal elevators? A. Mr. Fillmore, I do not know how other companies operate their terminals.

Q. Do you know how the terminal elevators are operated? A. I know how ours are operated.

Q. You do not know how the others are? A. No.

Q. Do you take any grain from other parties as well as from your own country elevators? A. Sometimes.

Q. Do you pay diversion premiums? A. Yes.

Q. Get diversion premiums? A. Yes.

Q. And do any mixing? A. Well, now, what do you think?

Q. We heard yesterday something to the effect that a lot of money can be made out of mixing different grades. I was wondering if you did any of that. Have you made money by that means in your terminal elevators? I would hope so.

THE CHAIRMAN: The answer, therefore, is Yes.

BY MR. FILLMORE:

Q. You derive revenue from storage charges? A. Yes.



Q. Elevation? A. Yes.

Q. Cleaning? A. Yes.

Q. And out of all that you have some revenue, I take it? It has been a profitable business? A. Just a minute. That was part of the marketing machinery and business that we did for the member in the local in the country.

Q. No matter who has made the money, the operations have been successful? Let us put it this way: no matter for whose benefit they have been successful? A. Yes.

Q. You have a fourth terminal leased from the Alberta Pool? A. No.

Q. What is your arrangement with the Alberta Pool? In order to shorten it, I will read from your directors' report for 1944. A. You do not need to read it. We are very glad to file with the Commission the operating agreement between the Alberta Pool and ourselves, showing how we share the operations. Briefly, the Alberta Pool has designated Manitoba Pool Elevators as their agent and manager of their terminal, and we do the complete operation as agent for the Alberta Pool identically as we do it as agent for our locals in the country. And after providing for the operating expenses and the annual depreciation and interest, all moneys left over are rebated back to our local associations and to the Alberta Pool, on a bushel basis in proportion to what each one delivers in regard to the whole.

Q. In the year ending July 31, 1944, I believe your total receipts were nearly 60,000,000 bushels? A. I cannot verify that figure, because I have not got the records here.





Q. That is in your annual report? A. If it is in the annual report, it is correct, but I cannot verify the figure if I have not got the records here.

Q. The report states the division of total receipts was as follows: Manitoba, 28,588,777 bushels; Alberta, 23,783,927 bushels, and 3,609,056 bushels were received from other sources. A. That is probably correct.

Q. And in addition to those receipts you diverted to other terminals, mills, malting companies, etc., 1,074,305 bushels of Manitoba and Alberta grain, on which certain revenues were received? A. Which figures indicate that we did an awfully good job in moving Canada's wheat crop from a congested market.

Q. You probably did a better job than any other companies? A. You could verify that through the Canadian Wheat Board.

Q. You told us that you did not know how the other terminals do their business, so they may have done a better job than you did. A "good job" is only a relative term. Perhaps the job you did was not as good as the job that somebody else did? A. Maybe not.

Q. The annual report states that the division of net earnings between Alberta Wheat Pool and Manitoba Pool Elevators resulted in Alberta receiving \$379,344.27 and Manitoba \$455,093.26. If that is not correct you can let me know. After 1931 and after the agreement with all the local associations that are referred to in the 1932 statutes went into effect, I believe Manitoba Pool Elevators Limited operated country elevators? I know you say you operated them on behalf of the locals--I am not going into that part of it--but the local elevators





were operated in the name of Manitoba Pool Elevators Limited, were they not? A. Yes, that is correct.

Q. You did all the bookkeeping, put in the agents, managed all the country elevators for all the local associations? A. It is not quite true to say we put in the agents. The locals engage their own agents.

Q. You continued, I believe, a small voluntary pool up till 1935? A. I think so, for one or two years. I have forgotten.

Q. Just to give the Commission an idea of the amount of grain handled in the voluntary pool, I suggest that your annual reports show that in 1931 and 1932 the total wheat handled by Manitoba Pool Elevators was 7,986,000 bushels, and the amount of grain in the voluntary pool was 110,000 bushels; and that in 1932-33 you handled 12,538,000 bushels of wheat, and the amount of wheat in the voluntary pool was 616,000 bushels, and so on, in about that proportion. I am instructed that that is what your reports show. If that is not correct, I can be corrected later on. I will not stop to ask you to verify the figures now. That voluntary pool, I believe, was discontinued in 1935? A. I think that is correct.

Q. Was that pool operated along the lines of the contract pool which had been operated prior to 1930?

A. Well, it was operated without a contract, but otherwise about the same.

Q. Without a contract? A. That is right.

Q. But otherwise about the same? A. About the same. It was only a dribblet.

BY THE CHAIRMAN:

Q. That is, the contract had been completely



abrogated? A. So far as the pooling and the marketing is concerned, but not in respect to the elevator contract. There were two separate organizations and two separate contracts.

BY MR. FILLMORE:

Q. Was not the original pooling agreement with the Manitoba Pool? A. Yes.

Q. Between the pool and the growers? A. Yes.

Q. Then the grain was marketed through the central selling agency along with the wheat of the other pools?  
A. Yes, that is right.

Q. And after 1931 it was no longer marketed that way? A. That is correct.

Q. The elevator company started operating the country elevators pursuant to the agreement in the 1932 statutes?  
A. We were operating the country elevators identically the same then as we were before. There were two contracts, two separate contracts, as I have explained, the pooling contract and the elevator contract.

Q. Have you got an elevator contract? A. Yes.

Q. Is that along the same lines as shown in the statute?

MR. SCARTH: I do not think so. I think the locals made their own contracts with the growers.

BY MR. FILLMORE:

Q. In 1931 did each local association have a contract with Manitoba Pool Elevators Limited? Did each have a contract prior to the one set out in the 1932 statutes? I am referring to the contracts for marketing of grain.  
A. The individual grower did not have any contract with the elevator in respect to marketing; it was merely in





respect to handling.

BY THE CHAIRMAN:

Q. He was not under any obligation to deliver his entire crop? A. He was not under any obligation to deliver. He was under an obligation to deliver if he signed a contract, of course.

Q. But he may have been a member of the pool and not of the pool elevator? One was a straight selling agency? A. Yes.

BY MR. FILLMORE:

Q. As I understand, your arrangements with the locals are set out in the contracts that are referred to in your brief? A. Yes.

Q. So, from and after 1931 you operated country elevators pursuant to the terms of those agreements? A. Yes.

Q. And you issued the statutory form of grain ticket, I believe? A. That is right.

Q. In the name of Manitoba Pool Elevators Limited? A. Yes.

Q. And you paid the current price to members and non-members alike? A. Yes.

Q. And you did not issue anything in the nature of a participation certificate to a man when he delivered his grain? A. No.

Q. So far as the manner and method of operation was concerned, you were operating the same as any other line elevator company? I am afraid not.

Q. Were the prices broadcast to the country agents each day? A. Yes.

Q. Did the country agents report to your Winnipeg



office the amount of grain purchased from day to day?

A. Yes.

Q. Did you hedge the grain from time to time?

A. Yes; not necessarily all of it.

Q. But to the extent you considered to be good business? A. To the extent that the banks required it.

Q. Large quantities of that grain were purchased on cash tickets? A. Well, I do not know what you mean by large quantities.

Q. After 1935 was not a great proportion, over 90 per cent, bought on cash purchase tickets? A. Not necessarily.

Q. We have had other estimates here. What is your estimate? A. I cannot estimate. It may have been on cash ticket, it may have been on storage ticket, it may have been on consignment--I do not know what percentage of each.

Q. You do not know whether it was 50, 75 or 90 per cent? Would it be below 50 per cent? A. I would not have the faintest idea. It would all depend on what the grower wanted. The Canada Grain Act provides several ways of taking settlement for your grain. He elected to take whatever he wanted.

Q. Was there much consigned grain after 1935?

A. There has always been a lot of consigned grain in Manitoba.

Q. Were not those car-lot shipments a small proportion of the total grain delivered in any one country elevator? A. No.

Q. After 1935 was not the amount of consigned grain on the whole much less than the amount of grain bought



on the cash purchase ticket? A. Yes, on the whole.

Q. You bought some grain and you acted as agents, commercial agents, for consigned grain, I take it?

A. That is true.

Q. And made the fixed charges for that business, did you not? A. That is true.

Q. As regards the grain purchased, I think you used the expression that you merchandized the grain, meaning that you sold it through the usual channels? A. Yes, I think that is correct.

Q. In connection with the purchase or handling of grain of the members of local associations, can you tell me if there was any obligation on the part of the local association to account to the member, to do anything for the member in respect to the grain purchased? A. Well, in the first place the grain is not purchased.

Q. We will not argue about that; that is a matter of law. You issued cash purchase tickets?

MR. SCARTH: Perhaps Mr. Parker would like to state the facts. He is not arguing the law.

MR. FILLMORE: He is arguing the law when he says the grain was not purchased.

MR. SCARTH: You asked him to make a conclusion of law when you asked him whether anything was done in respect to the grain purchased.

BY MR. FILLMORE:

Q. When grain came to a country elevator and the farmer wanted to get money for it, you gave him a cash purchase ticket? A. Yes.

Q. At the day's price? A. What do you mean by the day's price?





Q. The current market price, or the price as sent out to the agents.

BY THE CHAIRMAN:

Q. What use did he make of that cash ticket?

A. It is exactly the same thing as a cheque, sir.

Q. He might cash it at once? A. Yes, sir.

Q. It is just a convenient way of paying cash?

A. Yes. You cannot give agents thousands of dollars in cash.

BY MR. FILLMORE:

Q. Then the grain was put in the elevator? A. Yes.

Q. The identity of the grain was lost? A. Absolutely.

Q. I just want to get the facts; we will not argue about whether there was a purchase or not. Can you tell me whether since 1931 any local association had an agreement in writing with any member or members obliging the local association to pay to the member the proceeds from the same of the member's grain on the basis of quantity and quality? A. As I recall it, that is provided in the compulsory handling contracts that were signed by the original members prior to 1931. The only part of that contract that has ever been abrogated was the compulsory delivery section. In spirit the rest still remains in effect to this day. Since that time we have taken in a lot of new members who have not signed anything except an application for membership.

Q. Does the old contract carry over in fact or only in spirit? A. It carries over in fact.

Q. The grower's contract, the original grower's contract, was that with the Manitoba Pool or was it with the Manitoba Pool Elevators Limited? A. There were two

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contracts, Mr. Fillmore. One was with the Manitoba Pool, in respect to marketing. A member might be a pool member, but not necessarily a pool elevator member. If he was a pool elevator member, then he had another contract, between himself and his local association. There were two contracts, distinctly separate contracts.

Q. You say there were two types of contracts. One was between the grower and the local association? A. That is right.

MR. E. T. PARKER: Pardon me, that is the one that is attached to the brief?

THE WITNESS: Yes, that is the one.

BY MR. FILLMORE:

Q. Was there any contract in force between the grower and Manitoba Pool Elevators Limited? A. No.

Q. And is there any contract now in force directly between the grower and Manitoba Pool Elevators Limited? A. No.

Q. Is there now any contract in force between any grower or growers and any local association whereby the local association is obligated to pay to such member the proceeds from the sale of his grain on the basis of quantity and quality in that season? A. It is not necessary to have a contract in order to establish the obligation, because the by-laws and the operating agreement of the association provide how the affairs shall be carried on. At the annual meeting, with the balance sheet before them, the members decide, and then it is taken out of the hands of either the provincial board or the local board.

Q. We will put it this way, that the legal relations





between any member and the local association are found in the constitution and by-laws and statutes? A. Yes.

Q. And written agreements? A. Plus the obligation from the individual to become a member of the association, accepted formally by the Board of Directors.

Q. Have you got a formal obligation here? A. I do not know, Mr. Fillmore, but I think it is attached also.

THE CHAIRMAN: No.

THE WITNESS: Then it is attached to the briefs filed by the locals in Winnipeg.

BY MR. FILLMORE:

Q. As I take it, the contractual relations between a grower and a local association must be found in the application for membership, the by-laws, the charter of the local association and the laws and statutes of the province? A. I think that is correct.

MR. SCARTH: That is quite a lot to ask a witness. Mr. Fillmore is asking him whether these documents contain all the agreements between the growers and the company, or whether there may be a hundred and one other things, such as course of conduct or something like that, that might bind the company. He is asking a man, who has no knowledge of this, to state whether these documents constitute the contract, whether the writings are the only things you may look to. I think that is asking rather a lot, and I object to it accordingly.

THE CHAIRMAN: You might ask if there is anything outside of those contracts.

BY MR. FILLMORE:

Q. Is there anything in writing between the member



and the local association in addition to the application for membership, the charter and by-laws of the local association, and the statutes of Manitoba? A. And the operating agreement of the association.

Q. That is between the association, the local and the Manitoba Pool Elevators Limited? They are the agreements referred to in your brief? A. Yes.

Q. With regard to the incorporating Act of the company, you point out that there have been amendments whereby the word "Limited" has been dropped, and another one to the effect that the share capital is cancelled and the paid-up capital of the company constitutes a membership fund. Is that paid-up capital still in possession of the company under the name of a membership fund? A. I think it is so recorded in the last balance sheet.

Q. Was that change in terminology designed to afford any protection in the event of income or excess profits taxes being levied? A. No. That was the only way we knew in which to set up a company at that time. We were just providing the very minimum. It was never considered by the membership other than a piece of legal machinery to get the thing set up, and it was their request to set it up that way in place of the capital stock ownership.

Q. But that legal machinery, while a matter of great convenience, also protects the members from any legal liability in case the legal machinery got into trouble? A. It may have.

Q. They got that advantage out of it?

MR. SCARTH: Do you suggest it is wrong,



Mr. Fillmore?

BY MR. FILLMORE:

Q. You also said that the associations have always continued to account in every year to their members for savings arising out of transactions on behalf of members and have allocated and credited the savings to them. By "members" do you mean associations or do you mean individuals? A. That refers to the associations' credit to the individual members.

Q. By accounting, you do not mean that you have paid over the money, of course, but that you have only allocated everything in one year or another? A. Yes, you must first make the allocation.

Q. On what basis have you made the allocations? Has it been on a bushel basis? A. Bushel basis.

Q. Let us get that clear. Do you allocate to associations? A. Allocate first to associations, in the head office books.

Q. It is allocated to associations on a bushel basis? A. That is correct.

Q. That is, you would credit the Clearwater, we will say, with so many bushels of wheat, so many bushels of coarse grains? A. Whatever it may be.

Q. Without regard to grade? A. Correct.

Q. Then in your books do you make any further allocation than to the association? A. We keep the books for the locals. That is provided for.

Q. So that the only allocation made by the Elevator Company is on a bushel basis to each association, is that correct? A. That is the first step in the procedure. There is a final allocation to the individual.





Q. The next allocation is by the local to the member? A. Correct.

Q. But in making that allocation do you simply give credit for so many bushels of wheat, oats or rye, as the case may be? A. Yes.

Q. Do you credit them with the total shipment?  
A. No. We carry a grower's ledger. Every bushel is recorded.

Q. Every bushel? A. Yes.

Q. That is the final basis of allocation? A. Yes.

Q. It may be that where there has been a poor crop in some districts certain elevators may have carried on business at a loss? A. Quite correct.

Q. Others may have made money, but the allocation is still made on the same basis to all local associations?

A. Just what are you getting at? Just a minute till I get the meaning of your question.

Q. The credits which they get are based on the total number of bushels shipped in? A. What credits are you referring to?

Q. I am talking about the credits which you mention at the top of page 7 in your brief. You say, "the associations have always continued to account every year to their members for any savings arising out of transactions on behalf of the members, and have allocated and credited the savings to them." I only want to know what is meant by that statement. As I understand it, you are talking about allocating and crediting savings to local associations. First tell me how you make the allocations to the associations? A. Well, that is rather an involved story, Mr. Fillmore. It will take us through



all our involved set-up. I do not know whether you want it all or not. I will go this far, to make it very brief. The handling charge, the service charge collected at the elevator, stays in the local association. Any grade gains or losses, overages or shortages, are credited or debited at the local association. Any storage earning made by an association is a direct credit and belongs to it.

Q. The credits to the locals are in dollars and cents, is that so? A. Yes.

Q. Are there any credits given to them on a bushel basis? A. From the head office, from the joint operations, yes.

Q. Does the head office give the locals any credit on a bushel basis? A. Yes.

BY THE CHAIRMAN:

Q. Do I understand the allocations to the individual members are also made from your head office? A. The bookkeeping is all done in the head office.

Q. Not only do you allocate to the local associations, but you then reallocate from the associations to the individual members? A. Yes.

BY MR. ARNASON:

Q. Is that allocation to individual members subject to the approval of the directors of the local association? A. No. The allocation is automatic. I mean, it is a matter of custom, it is automatic, except for a nominal amount; everything else is automatic in this allocation. If you want to follow through all the intricacies of this grain business, what we allocate somewhat arbitrarily perhaps at the local and then again at the terminal, we





will be here the rest of this day.

At 12.30 p.m. the Commission adjourned until  
2.15 p.m.



-7076-

Ottawa, Thursday,  
April 26, 1945.

The Commission resumed at 2.15 p.m.

W.J. PARKER, examination continued.

BY MR. FILLMORE:

Q. Mr. Parker, I was asking about the allocation of earnings, and first about the allocation by Manitoba Pool Elevators to a local association. Perhaps we could approach it in this way. I am instructed that in the operating account of a local association there is a credit item reading: "grain earnings, including initial spreads, carrying charges, grade gains and losses, overages" and so forth, a credit of so much, which I presume is the amount remitted by the Elevator Company to the local association -- or paid, we will say; credited. Would you explain first what is meant by grain earnings? If that is not clear to you I would be glad to have you consult the accountant or anyone here who can answer the question better than you can. A. Grain earnings? Read the rest of it, please.

Q. First, grain earnings -- A. Incidentally, that is one of the local balance sheets. It is the balance sheet of one of the associations.

Q. I am instructed it is a copy of one. First we have grain earnings. A. Made up of what?

Q. Including initial spreads, carrying charges, grade gains and losses, overages and shortages? A. That is what I explained this morning. Initial deductions are the one cent or three cents or five cents or whatever may be taken at that particular time or that year under what would be the market price at Fort William, less freight, less something else, what we call the initial payment. The next one is?



Q. Initial spreads? A. That is the street spread.

Q. Carrying charges? A. That refers to the matter we have been speaking about as part of the money that the wheat board paid on behalf of the growers. That is their share of the grain that was handled by their own facilities at that shipping point.

Q. Grade gains and losses? A. That is a matter of grade promotions. The agent may be able to make grade promotions by virtue of blending 2 and 3. If there is a very good 2 and a very good 3 he may be able to bring them together and make them all 2 or put 3 over the cleaner and promote it to No.2 grade. There is a certain spread there so that there is an actual earning, and that is their own particular property.

Q. Overages and shortages? A. That refers to the weights. The grain is weighed in over the local scale, inspected by the government inspector, and all the rest of it, and overages occur because there is permitted under the Canada Grain Act one-half of one per cent as a deduction to take care of any loss. Then there is the dockage content that comes in the grain and which is taken out by the cleaner. It is all part of the grain handling picture, but overages are something which is controlled and scrutinized very carefully by the Canadian Board of Grain Commissioners. Those are things that are made through the grain delivered by local people to the local elevator. It belongs to them and is left there.

Q. Do not grain earnings include any gains you may have made through having purchased grain or taken delivery of it at a certain price and resold it at another price? A. As I explained this morning, we do not in our opinion purchase





grain. We give an initial payment, and what the final payment may be we do not know until the grain is actually disposed of.

Q. I was going to come to that in a minute. Under an agreement which you entered into in 1931 and 1932, all revenues are pooled. The revenues of the whole 180 associations are pooled? A. For what purpose? Don't take it out of its context.

Q. You have an agreement with each of the 180 associations which provides that all revenues in respect of the business of the association coming into the hands of the Elevator Company should in each year be pooled and constitute one general fund from and with which the Elevator Company should in each year, in so far as the amount of the fund for that purpose would permit, make certain deductions?

A. For what purpose are those deductions made? There is a specific reason for that clause. Read it all.

Q. In so far as the amount of the fund would permit, pay a proportion of operating expenses of the associations which sign the four -party agreement? A. Yes.

Q. That is one. B. Pay to the government all interest to the Elevators Company on the purchase price of elevators? A. Yes.

Q. C. Pay to the government all instalments due the Elevator Company on the purchase price of elevators by such association? A. Yes.

Q. Pay into special reserve account contributions to special reserve to be made by such associations as provided by the four-party agreement, and retain the balance until the Elevator Company shall accumulate working capital in the amount of \$400,000? A. Yes.



Q. You might say that to the extent there indicated the 180 associations are in partnership? A. Shall we call it a hybrid?

Q. I say that to the extent indicated by that agreement you are engaged in a joint enterprise? A. Put it this way. They are individually incorporated associations --

Q. No; just a moment. A. Permit me to answer the question.

Q. I would like to have answers to my questions and not speeches. A. I want to be perfectly frank so that you will understand it. They are individually incorporated associations and were so recognized in the four-party agreement drawn between the associations, the Pool Elevator Company, the government of Manitoba and the now defunct wheat pool. Under that agreement the government did not ask them to pool their individual revenues in one lump sum. They were recognized as individuals and the government took this responsibility in collecting from the 152 associations, as there were then. They put in one provision that each association, out of any surplus that might accrue to it, or the first surplus that might accrue to it, should set up a 10 per cent special reserve account, which went into a special trust account to the province, from which the province would pick up any deficits that might accrue that year or later in respect of some deficit associations. That was all right. But may I say that we were relying a great deal on the government's generosity and after the experience of a year or two we realized that was not too helpful, so we made what I jokingly referred to as a hybrid, being really a cross between the straight line company or one of the other pools and our own individual set-up, which is enunciated in





the clause that Mr. Fillmore has just read. It was a voluntary agreement between all associations whereby they would make sure that so long as the total surplus for the year was sufficient they would see that the government was paid in full in respect of capital liability, interest and 10 per cent reserve for that particular year. It was a voluntary arrangement effected in an attempt to make sure that the province was paid each and every year. To that extent we pooled as one, and for that purpose only.

Q. Certainly it is a voluntary arrangement and the arrangement was authorized by statute. In 1938 a statute was passed which ratified the power of your company, the Elevator Company and all the local associations to enter into an agreement of that character. Is that referred to in your brief?

MR. SCARTH: That statute was passed confirming the fact that they had power to make that agreement.

BY MR. FILLMORE:

Q. The right to make such an agreement was enacted in a permanent statute in 1938. As you explained, you found that the old agreement was not one that was satisfactory and you would operate as a line elevator company or in a manner similar thereto? A. No; I did not say that. I did not say it was not satisfactory. I said it had weaknesses which did not give as much protection to the government and the province as we desired to give, so we voluntarily arranged for what we called a supplementary agreement in 1933. The agreement had other provisions which you will probably come to later on. But for your information, Mr. Chairman, I may say that as a matter of internal bookkeeping any assistance given in respect of capital payment by one association who



may be successful this year to another one is something to be adjusted later on before anyone gets clear title to his house. So far as interest is concerned, we washed it out. That is their contribution to the joint operation because, no matter how small an association may be, the contribution of these few bushels to the whole makes some impact on the net cost per bushel, so that it is fair.

Q. I call your attention to a statement in your directors' report for the year 1931-32, page 3, under the heading, "Future Policy". You say: "One of the most important matters for the consideration of the delegates was the question which has been discussed at all local annual meetings earlier in the month, namely, the advisability of changing from the individual unit method to a system of line operations similar to that practised by the pool organizations in Saskatchewan and Alberta." Do you remember that discussion? A. No, frankly, I don't.

Q. That was after the agreement of 1931 had been signed and you decided then that, in order to operate more effectively, you would have to have an agreement between all associations and the central company? A. Between all associations and the central company? They had nothing to do with it.

Q. An agreement was entered into between the associations and the elevator companies in the year 1933? A. Yes.

Q. And it provided that all revenues in respect of the business of the association coming into the hands of the Elevator Company should in each year be pooled and constitute one general fund. That is your agreement. I do not care what you call it. A. I submit that you cannot take that statement from its context and give a true picture.





Q. Was the agreement given effect to? A. Yes.

Q. Were all revenues put in one general fund? A. Yes, for the purpose of doing that one specific thing only. They were to do that and then split again.

Q. It was for the purpose mentioned in the agreement?

A. That is correct.

Q. Did that general fund include moneys which represented the difference between the sale price of all grain and the amount of money that was paid at the time it was delivered into the elevator? A. It might have, yes.

Q. It would? A. If there was a difference, yes.

Q. This morning you used the expression "merchandising gain" which I take it meant selling grain which was taken into a country elevator. Did this allocation by the central company to the local under the heading of "grain earnings" include part of that merchandising gain? A. Yes.

Q. I see another item headed "terminal earnings". Was that an allocation to the local based on terminal earnings? A. Yes.

Q. Was the allocation of what we will call merchandising gain based on the number of bushels delivered by the particular association to the pool elevator company? A. The number of bushels shipped forward, yes.

Q. I am sorry; I did not get that. A. The number of bushels shipped forward.

Q. And did the terminal earnings include -- perhaps I will put it this way: Was the amount allocated there based on the number of bushels shipped from that particular local? A. Yes.

Q. Then you have two other items. There is insurance patronage dividend. I take it that is part of money you got





from the pool insurance company. Then you have rentals. What would that be? A. That is rentals of agents' cottages. Permit me to explain that.

Q. Very well. A. That might be interpreted, sir, as investment income, as rent of the agent's cottage. As a matter of fact, any rent that we set up is charged the agent for the use of the house which the association may purchase for his convenience and it is not, in my opinion, enough at any place to pay carrying charges on the invested money in the actual building. As a matter of fact, before the War Labour Board and the income tax people came into the picture the association usually paid the agent's salary and gave him free rent, but when personal income tax came in we were obliged to charge a nominal rent, not less than \$10 a month, so that we increased his income tax. It is merely a matter of bookkeeping.

Q. Before any such allocation was made by the central company to a local, was the local's share or burden of A, B, C and D taken out of this general fund? A. Yes.

Q. And were there also taken out moneys spent for plant and equipment and other investments -- we will say plant and equipment? Was the purchase price of terminal elevators taken from the general revenues which were pooled? A. No.

Q. Where did the money come from with which you bought terminal elevators? A. We made a small cash payment and since that time the terminals paid for themselves. The moneys used for the original small investment, cash investment, came in the main from the unallocated reserve moneys and contingency moneys, in respect of which I pointed out this morning what we would attempt to justify as a reasonable



amount having regard to the volume of business being done.

Q. When you say that they paid for themselves, do you mean that the terminals had earned enough money to meet the purchase price? Is that what you mean? A. I suppose that is a correct statement, if you wish to put it that way. But don't get me wrong; they have not paid in full yet. Go easy. I say that to the extent that they have been paid since then, it has come out of earnings created at the terminal department.

Q. You state in paragraph 22 that when a member delivers grain to the association at its country elevator he is paid at the time of delivery what is between himself and his association an initial payment. You have already explained that is equal to the market price? A. Yes.

Q. The initial payment made to the members is on the basis of quality and quantity. That means so many bushels of a certain grade of wheat at so much a bushel? A. Yes.

Q. The same amount you would pay to a non-member?  
A. Yes.

Q. Leaving to be accounted for by the association to the members any moneys over and above the initial payment realized from the handling and marketing of grain. So that what gets to the local association out of the pool revenues is the residue as to which you have given an explanation. Well now, what does the local association do when it gets credit or payment? First, does the local association allocate to its farmer members the credit which is allocated to the association by the central body? A. Yes.

Q. And is that allocated to the farmer member on the bushel basis? A. On a flat bushel basis. That is right.

Q. Irrespective of grade? A. That is correct.

Q. So many bushels of a certain kind of grain? A. That





is right.

Q. In paragraph 23, on pages 7 and 8, you refer to special reserve and working capital. Did those two items come out of the general pool revenues pursuant to the terms of that agreement? A. No.

Q. From what source? A. The 10 per cent special reserve would come out of these pooled revenues if it were necessary to dip into pooling in order to do it; but if all associations are, shall we say, financially successful for that year, if I may use that language, then each makes its own contribution to this required amount of 10 per cent. Incidentally, these 10 per cent reserves are all now set up and each association provides its own working capital on the basis which we have outlined in the brief from surpluses allocated to the members at the end of each year.

Q. It is true that each local association does, but this special reserve referred to in paragraph 23 is a reserve of the central set-up? A. No.

Q. Not at all? A. Not at all. It is set up in member's account for each association under the terms of the four-party agreement. We have nothing to do with it.

Q. And the working capital referred to in paragraph 23 -- is that working capital of the local or the central? A. What did we say in paragraph 23? Working capital is provided by each association.

Q. That is working capital of each local? A. Yes, provided by each association from its own surplus.

Q. But the local association does not get any money except from the central association, does it? A. Well, all moneys belong to the locals. We simply do the bookkeeping and act as trustee. We do not own a dime, not a nickel.



Q. Does all money which comes into the hands of the local association come from the trustee? A. It comes through the trustee as agent. We do not create it in our own right.

Q. You scramble the eggs so that I can unscramble them. However, the trustee has pool revenues? A. Yes.

Q. And the trustee gets money from dealing in grain? A. The members' grain.

Q. And that is the way the money gets into the pool revenue, and then it gets from the pool revenues into the local associations?

MR. SCARTH: Qualify that, Mr. Fillmore. Don't put words in his mouth. He said that the local made a contribution to the special reserve and working capital in each year they made money. That should be made clear. That answer standing by itself is misleading.

BY MR. FILLMORE!

Q. One other item is mentioned in the brief. At the time the four-party agreement was entered into in 1931 the government agreed to accept for its claim against the elevators \$2,100,000 instead of the actual claim of \$3,400,000? A. There was not a claim of \$3,400,000 against the pool elevators. All that could be claimed against them was what they actually had. The pool elevators only had \$2,400,000. You could not claim more than the thing was worth. You are dealing with two companies.

Q. You say that \$3,400,000 was owing by the pool? Is that what you say?

MR. SCARTH: Perhaps I could shorten this. It is rather complicated. The only assets left are local country elevators that had been sold by Manitoba Pool Elevators to the locals at



a price exceeding \$2,400,000. They all made certain payments on account to reduce the purchase price to a certain point, then the Manitoba Pool went into bankruptcy; but that did not affect outstanding contracts which had been entered into between Manitoba Pool Elevators and the locals, and the most the government could claim would be the balance of the purchase price owing under these outstanding contracts which were still alive and had not been affected by the fact that the Manitoba Pool had gone into bankruptcy. The government took this position. Manitoba Pool Elevators owes the Manitoba Pool a large amount on account of money borrowed. There is only one asset that is recoverable; we will take it, and you sell it back to the locals at \$2,100,000 in settlement of the debt.

BY MR. FILLMORE:

Q. A new deal was made for \$2,100,000?

MR. SCARTH: Yes; they settled for \$2,100,000.

BY MR. FILLMORE:

Q. One other point in connection with the administration of the general fund. I think you mentioned that in some years one local association might lose money whereas other associations might have a good year? A. Yes.

Q. How are the financial needs of the weak association furnished and charged up or dealt with? A. It was provided in that clause you read a while ago, the supplementary agreement of 1933 as amended in 1936. I quoted it in full and it sets out the position in better language than I can use.

Q. Mr. Scarth points to paragraph (a) in section 28 on page 9:

"(a) Pay the proportion of the operating expenses of all the associations which signed the four-party agreement





of August 1, 1931, which the associations forming the group were required to pay under the said agreement."

Is it under that clause that you furnish moneys for the benefit of wheat associations? A. That is right.

Q. And in some cases is that simply charged up as operating expense? A. To the extent that it is operating expense it is so charged. If it is interest or salary or municipal taxes, or what have you, if it is payment in respect of capital liability for that year, it is also charged. But as a matter of internal bookkeeping that association must make repayment to those from whom it has got assistance temporarily before it gets clear title.

Q. I am instructed that one local association was advised by the auditor as follows: The item funds contributed by other associations for assistance is not a liability for which payment will be required. It is included in the balance sheet for the purpose of recording the amount contributed to your association for assistance since the supplementary agreement of 1933 became effective? A. That is correct.

Q. Is that a correct statement? A. That is correct.

MR. SCARTH: "Assistance" is a pretty broad word.

THE WITNESS: I put on the record what we mean by assistance. It does not refer to capital payment.

BY MR. FILLMORE:

Q. In paragraph 31 you say that moneys for refunds first became available in 1936-37, when it was decided that such refunds should be returned to the earliest contributors to the working capital reserve. And you say: "This method has been continued regularly since that year, and is now generally known as the revolving fund plan." Who are the



earliest contributors to the working capital reserve?

A. The growers who, in the first year there was a surplus, made contributions.

Q. Do you mean in 1931, 1932 and 1933? A. If they had a surplus in those years.

Q. Whom do you call contributors? A. The members who delivered grain in those years.

Q. And who did not get paid; do you mean members who did not get paid? A. No, no. The surplus itself creates working capital under the revolving plan with which you are now familiar, and I have set out in the brief that if an association has \$1,000 surplus, \$500 is immediately repaid in cash if they so authorize at their annual meeting. If in the succeeding year they have another \$1,000 they will do the same thing again under the terms of the agreement, and the \$500 paid out is the \$500 left the year before.

Q. Is the working capital reserve held by the central body or the local association? A. The working capital reserve is held by the trustee, allocated to all individual farmer members of the 180 associations.

Q. Then you have some system whereby the trustee makes allocations directly to farmer members of the local association? A. It is just a matter of bookkeeping and the local association's own auditors set up their balance sheet and if it shows \$1,000, then the delegates to their local annual meeting make their own disposition under the terms of the agreement and under the terms of the Manitoba Act.





Q. You are referring to a disposition made by the delegates or directors of the local organization among its own members? A. Yes.

Q. Now, at page eleven, paragraph 33, you state: "After providing for all expenses, including depreciation of \$3,440,750 total savings of \$7,688,550 have been allocated to the individual members in the nineteen year period of operations. All of these moneys have accrued from net revenues."

Now, in the first place, let me ask you why you refer to nineteen years; why do you not refer to fourteen years?

A. Because, as I recall it, it is nineteen years since the first elevator started to operate.

Q. The present company or partnership --- A. No.

Q. Or whatever you call it ---

MR. SCARTH: The local associations have not changed at all.

BY MR. FILLMORE:

Q. You are talking about providing for all expenses; allocated by local associations, do you mean? A. Correct.

Q. But, since 1931, how much has been allocated by local associations to the individual members? A. I think that is all filed with the auditor of the commission. I have not those figures in my mind.

Q. Let me suggest, in the first place, that you should make a cut-off in 1931, because up until that time the contract pool was in operation. A. Nothing whatever to do with the operations of this elevator company, though; it has not changed.

Q. The elevator was owned by the pool and being run by the pool. A. Run by the Pool Elevator Company.



Q. Who had the shares in it? A. The pool advanced the money.

Q. Could we not put it this way: was the Manitoba pool operating a contract pool prior to 1931? A. Yes.

Q. And it made initial payments--interim payments and final payments--as previously explained. A. Yes.

Q. Are you including those final payments in that \$7,688,550? A. Most assuredly not.

Q. You are not? A. No.

Q. What is included there; what money prior to 1931; what patronage dividends were paid by the Manitoba Pool Elevators Company Limited? A. Just whatever was made in respect of the grade payments, and what have you, within the local elevator -- the same as you have it to-day. All other elevator companies have been handling pool grain; why should not this one? It had nothing to do with the pool price of grain, whatsoever.

Q. However, you have not got the cut-off at 1931. A. No, but we would be very glad to file it, if you care to have it.

MR. SCARTH: I think, Mr. Chairman, that Mr. Fillmore has taken us a long way. However I do not think there is any satisfying Mr. Fillmore's curiosity as to what goes on behind closed doors. I feel we have filed all that with the Commission.

THE CHAIRMAN: I think we can get all that information ourselves, Mr. Fillmore.

MR. FILLMORE: Yes; I suggested it only because there was a new plan of operation after 1931.

BY MR. FILLMORE:

Q. However, you say that these savings have accrued



from net revenues. A. Yes.

Q. That is to say, the savings distributed by the trustee to the local associations have accrued from net revenues. A. That is in the brief, yes.

Q. That is, the net revenue which went into this general pool fund. A. Yes.

Q. Now, I note you say:

"Savings repayable to members \$1,991,000."

According to the directors' report, a copy of which we have, the amount as of July 31 preceding was \$2,190,587.54.

MR. SCARTH: I am still making this objection, Mr. Chairman.

MR. FILLMORE: Well, it is only a couple of hundred thousand dollars.

THE WITNESS: Just a mere drop in the bucket; let us pass it by.

MR. FILLMORE: It is not very important, so far as size is concerned, I guess.

BY MR. FILLMORE:

Q. Then, turning to page twelve of your brief, paragraph 37, you state:

"These reserves are held by the Elevators Company as agent and trustee for the local associations, with their knowledge and consent. The local associations at any time can request that these amounts be allocated and paid out to the members who delivered grain in the years in which the reserves were established."

I should like to know this: is there anything in writing to give a member the right to demand and require payment forthwith? A. No, I suppose there is not. You will





understand that that particular comment refers to the two reserves recited in paragraph 2 above. It does not refer to all reserves.

Q. And you do not know any provision under which there is a legal right to demand immediate payment.

MR. SCARTH: I do not think he should be asked to answer that question, either.

MR. FILLMORE: All right, I will leave it up to my learned friend to answer, in his argument.

MR. SCARTH: We should be able to settle it one day.

MR. FILLMORE: Perhaps you can answer it.

THE WITNESS: I can tell you this, that if the locals asked for it I would not contest it legally. They would get it immediately.

BY MR. FILLMORE:

Q. What you mean is that you would pay it on request, without question. A. Yes.

BY MR. ELLIOTT:

Q. When you say "if the locals asked for it" -- do you mean asked for it through their delegates? A. Yes, if their delegates said, "We think you should take these funds out", there would be no suggestion from me, Mr. Chairman, to say that we need them further.

Q. You do not mean the individual. A. No.

BY MR. ARNASON:

Q. Is there any reason why these reserves, which are not allocated at present, cannot be allocated?

A. With respect to those two reserves--terminal reserves--when I say they are not allocated, I mean that we have growers' ledger accounts which carry the bushels delivered by every grower in those years. It is merely a matter of calculation to stick down the few dollars



that belong to each one. So, in effect, it is under allocation. You will remember that you have to go back in our balance sheets three or four years to see what we have come through. If we were in the present position, when we took those terminals on, we would not have set up these amounts of \$25,000 and \$38,000.

Q. You are satisfied that in a general way your reserves can be allocated? A. Yes, we can allocate every cent, except contingency reserves.

Q. Except contingency reserves. A. Yes; we have to have some cushion. But apart from that we can allocate every cent.

BY MR. FILLMORE:

Q. By "allocate" do you mean pay; allocation does not mean payment; does it? A. Yes, we can pay, too, so long as they left sufficient for their working capital fund. It is in the contract, and the agreement is that if they wish to have it operate they have to leave their money there; but if they do not want that, and want it back -- it is their business.

Q. So that these are allocated to the individual. He has to do it through this organization. A. If he were that kind of individual, we do not want him in the organization.

Q. You do not want a man who wants his money out. A. Not until his turn comes.

Q. Then, in paragraph 39 at page thirteen you say: "Originally, the foregoing assets were financed as follows: period 1925 to July 31, 1931, loans from Manitoba Wheat Pool \$3,056,800."

Is that the deductions? A. Yes.

Q. And with all those terminal elevators -- you





Mr. W.J. Parker

had not acquired them then, had you? A. No.

Q. It would only be part of the foregoing assets.

A. No, but you have to take it all. You have \$3,000,000 which came from the pool originally, and then \$1,236,000 to an outstanding mortgage, financed on the mortgage basis; and the other is working capital.

Q. However, from August 1, 1931 to July 31, 1944 the amount is about \$2,900 which came out of pooled revenues for the purchase of plant and equipment.

MR. SCARTH: Part of that is mortgage -- paid on mortgage.

MR. FILLMORE: I understood the mortgage had been paid off.

BY MR. FILLMORE:

Q. Has not that mortgage been paid off, on the terminal elevators? A. It has been paid off to the outside. Part of it has been transferred by direct means from the individual farmers in the country.

Q. Some of it is still owing to the farmers in the country. A. Directly to them as individuals.

Q. Subject to that the purchases of terminal elevators and working capital and other reserve funds have come out of the pooled revenues of the company, is that correct.

MR. SCARTH: "Pooled revenues", do you say? -- no.

MR. FILLMORE: Of the trustee or of the organization.

THE WITNESS: Would you give me that question again, please.

BY MR. FILLMORE:

Q. Referring to paragraph 39 at page thirteen of the brief except for the amount owing to farmers who



advanced moneys, did the money to pay mortgages on the terminal elevators and provide working capital in other reserve funds there mentioned, come from the revenues which were pooled pursuant to the four-party agreement?

A. No, there is \$1,600,000 of working capital; I have explained how it has been acquired. I believe I have explained that fully, not only in the brief but also verbally. It is now within \$100,000 of reaching its maximum. We have established a maximum, and we established a policy of how we shall attain it. That is also included in there. Very little of it is frozen, as at the first of January it was all liquid.

Q. In 1931 you started out with very little working capital. A. We did not have any.

Q. And you had elevators and moneys owing on the elevators. A. We did, yes.

Q. In the meantime you bought property and you got working capital. A. Yes.

Q. And you reduced liabilities? A. Correct.

Q. And did the moneys come from any source except from operating your country and terminal elevators pursuant to the agreements? A. It all came from that source.

Q. All from that source. A. Yes.

BY MR. NIDEAU:

Q. Who owns the mortgages on the terminal elevators? A. The mortgages have been discharged entirely.

Q. But who had them? A. The companies from whom we bought them. We bought from two grain companies. If you wish to have the names of the companies I could give them, but it was two companies that had them, and we bought them. That still shows in the statement -- the



dates they were bought, the price paid for them, and all that.

BY MR. FILLMORE:

Q. Now, I do not wish to take up the time to go into too much detail, but I would call the attention of the Commission to the net repayable surplus -- that is, the net revenue, or whatever may be designated in each year, starting with 1931-32. I point out the terminal earnings distributed to local elevator associations, and the amount of patronage dividends paid, so that these figures will be available to the Commission. If my learned friend is agreeable, I suggest that he check the figures, and that they go in later.

THE CHAIRMAN: You mean for the study period.

MR. FILLMORE: Yes.

THE CHAIRMAN: Which, by the way, is growing more and more formidable every day.

MR. FILLMORE: In presenting our brief we make some allegations of fact, and I want to substantiate those allegations. I can do so by going over the directors' reports from year to year. I do not wish to have to do it just now, however, or with the witness.

MR. SCARTH: On that point, may I say that that is one of my chief objections. Mr. Fillmore has a brief, and he now says that he would like to prove his brief through asking some questions. These are all internal operations, and he can have everything he wishes to have.

THE CHAIRMAN: As I understand it, Mr. Fillmore is leaving it to us to dig it out of the documents we have; is that not so? He just wishes to take care that we do not overlook the suggestion, that is all.

MR. FILLMORE: The annual reports and statements are





available to the Commission. Therefore it will be unnecessary to put it in or take up the time of going over each item.

THE CHAIRMAN: You say that the allegations contained in your brief are proved by the documents we have before us, and you ask us to look into them; is that not correct?

BY MR. FILLMORE:

Q. Now, Mr. Parker, I believe what you call the trustee has a membership in the Winnipeg Grain Exchange and clearing house? A. Yes.

Q. And also in the grain clearings association.  
A. Yes.

Q. Do you publish a paper known as the Co-operator?  
A. No, we do not publish it.

Q. You have an interest in the company which publishes it? A. No, it is not a company. It is just a voluntary arrangement of cooperatives in Manitoba. They publish a little eight-page paper.

MR. FILLMORE: I shall file this statement with the Registrar.

MR. E. T. PARKER: What is that statement; give it a name.

MR. FILLMORE: It is a series of references, amounts and page numbers.

MR. SCARTH: I do not admit that any of the exhibit is true. It is just for the purpose of the Commission, is it?

MR. FILLMORE: Yes.

MR. SCARTH: My understanding is that it is not correct.

MR. E. T. PARKER: If Mr. Fillmore would make a



statement as to what this document contains it would be satisfactory; it is not a question as to whether or not it is admissible. Rather, it is a question of whether it is a set of references which may assist the Commission.

MR. FILLMORE: It is simply a statement, the headings of which are: Net Repayable Surplus for the years 1931-32 to 1943-44, both inclusive. And in the next column is the page reference number in the directors' report. In the next column is the heading: "Patronage dividends" for the same years, and the next column shows the page numbers in the directors' report. I should like to file it for the convenience of the auditors.

THE CHAIRMAN: Is there any objection to that? I understand it is filed by way of an indication to us as to what we are to look for. My suggestion would be that Mr. Glassco and Mr. Ronald might look at it, and tell us whether we need it, and what it indicates.

MR. SCARTH: I have no objection to that.

BY MR. FILLMORE:

Q. Mr. Parker, you mentioned that you have no interest in the Manitoba co-operative, except ---

A. There is no investment in it.

Q. And have you any investment in the Manitoba co-operative wholesale? A. Yes, we have a nominal investment there. I have forgotten how much it is, but it is a very small amount -- to give us membership, only.

Q. And I think it has already been stated that you have an interest in Canadian Pool Agency and in the pool insurance company. A. We have.

Q. And have you an interest in the Canadian co-operative Wheat Producers Limited; that is the former central marketing agency. A. No.





Q. And there is a new company, I believe, being formed known as the Canadian Co-operative Implements, Limited, which is to go into the manufacturing business in the city of Saskatoon. Your annual report mentions that contributions are being made by the provincial governments. Have you made an investment in that? A. No, we have not.

Q. Have you that step in contemplation? A. Yes, perhaps we may, depending upon what they do.

Q. Is that project under consideration by the three western pools? A. Not jointly; they may be separately; but I do not know.

Q. And you have a forage seed department. A. Yes.

Q. And have an investment of \$100,000 in that. A. Yes, just a building -- and a little bit of cleaning machinery.

Q. And you have an investment in war loans and victory bonds. A. Yes.

Q. The amount is shown in your statement. You have assisted the Manitoba Co-operative Dairies, and given them financial assistance? A. We have.

Q. In 1941 and 1942. A. I have forgotten, but we gave a little assistance.

Q. For the amount shown in your statement. A. Yes.

BY MR. E. T. PARKER:

Q. Are those gifts or loans? A. It is a loan, to help them out temporarily.

BY MR. FILLMORE:

Q. Did you make a small loan to the Saskatchewan Pool to help them out temporarily? A. They do not need help.

Q. I thought you had made them a loan at one time?



MR. E. T. PARKER: Perhaps they loaned to Alberta.

BY MR. FILLMORE:

Q. Have you made them a loan? A. The Saskatchewan Pool?

Q. Yes. A. We have deposited money with the Saskatchewan Pool at times.

Q. Do they owe you a large sum of money now?

A. No, we owe the banks several millions right now, Mr. Fillmore.

Q. I beg your pardon? A. We owe the banks several millions right now.

Q. You have plenty of assets to cover that.

A. The banks think so.

Q. Yes; you have more than enough to cover it. You did not mention that to try to make us think that you are hard up, did you? A. No.

Q. Then, just to review one or two matters, may I suggest that the sources of revenue which are available to you as trustee, and under an operating agreement, apart from the merchandising of grain, consists of gains or losses on non-members' grain. A. Well, if we have any, yes.

Q. And the operation of terminals. A. Will you re-word your question.

Q. I have just summarized: among the sources of revenue the trustee has, under the revenue pooling agreement, is the revenue from the operation of terminals elevators? A. Do you mean revenue accruing to the trustee?

Q. Accruing to you as trustee pursuant to the terms of the four-party agreement. A. Agreed.

Q. And, accruing to you likewise as such trustee,



storage charges on crown wheat. A. Yes.

Q. And by crown wheat I mean wheat taken over by the crown in September, 1943. A. Correct.

Q. That is all. A. Yes.

Q. That is not charged back to the farmers, is it?  
A. No.

Q. And have you some coal business and flour business, or twine business? A. Half a dozen or a dozen of the locals do a little bit of it, for their members. We do not do it.

Q. It is done entirely by the pools, not by the trustee. A. Correct. And it is very small in total.

Q. And you have a small item covering the rent of agents' cottages. A. Yes.

Q. Did you receive interest from the moneys you deposited with the Saskatchewan Pool? A. Yes, and to complete the statement, the net interest is still in deficit.

Q. Have you some investment in a corn cooperative or pool in southern Manitoba? A. Yes, some of that is outstanding -- two or three little flat warehouses which we loaned them money on to run the corn pool for two years.

Q. Now, in paragraph 61 you say:

"The position of Manitoba Pool Elevator associations because of the last five years' operations is simply that they have succeeded in paying their 5 per cent depreciation and operating expense. All moneys over and above that have been allocated as patronage dividends, thereby improving the financial and social position of the farmer members who collectively constitute the organization. Moneys so allocated are





not reserves, but are debts to the members which are regularly repaid under the revolving fund plan."

Now, do you refer there to debts owing by the trustee or by the associations collectively to individual members?

A. The individual association owes its own members.

Q. That is what is meant? A. Yes, I think that is a correct statement.

Q. And you mean to say that the local associations allocate everything above depreciation and operating expenses to the farmer members. A. That is correct.

Q. Have you each got a different revolving fund plan? A. No, they are all the same.

Q. What is the plan? A. What is the mechanics of the plan, do you mean?

Q. The rate of revolution. A. I said we had fixed a maximum arbitrarily at 50 per cent of the capital cost. As an illustration, an elevator costing \$20,000 would have a maximum working capital requirement of \$10,000. The contribution or the retention is 50 per cent of each year's surplus until you reach the maximum.

Q. This door revolves each year. A. Yes, it revolves each year -- when there is something to put in to make it revolve, and to that extent only.

Q. The door revolves if there is something in the door. A. Yes, and if there is not she does not.

BY MR. ARNASON:

Q. Does a member of the local association receive a statement each year as to the amount credited to him?

A. No, we never have done that. If they wish to have it, they can get a statement from us, or see it in the books, but we never have given each individual a statement. They each get a balance sheet, in their own local,



disclosing the total amount of money set up to their credit. They can determine what the true amount is. Each man knows how much he delivered, so that it is a matter of simple arithmetic to determine what the amount is.

Q. Is there any provision for the transfer of the interest which a member may have? A. They may do it among themselves, if they wish, but to my knowledge they have not done so.

BY MR. FILLMORE:

Q. When you say that moneys so allocated are not reserves, but are debts, do you mean that they are debts in respect of which a man can walk in any day and demand money, or must he wait until the door revolves?

A. Under the present set-up I think he would have to wait until the door revolves.

Q. And likewise, if a member died, his estate would have to wait until the door revolved. A. Until this year that was so. But from now on we propose that when a death occurs we will pay out in cash immediately the entire amount accruing to the estate. That has not been possible until the present time.

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Q. At page 18 you mention the number of elevators that you have. By the way, did you buy forty-one elevators in 1940, or thereabouts? A. Yes, in Western Canada.

Q. Was the purchase price paid out of this central trustee fund? A. It was paid out of the unallocated reserve.

Q. Then to take care of those elevators did you organize twenty-six local associations? A. Well, I would not verify the number without checking, but we organized an association at each shipping point where we did not already have one. The difference between twenty-six and forty-one is the number of those points where we already had associations.

Q. When you speak here of some of the benefits you confer on farmer members or farmers in your districts, I suppose you realize that line elevators likewise have taken some steps to improve the position of agriculture in the community? A. Competition compels lots of things that we have not done before.

Q. I am sorry I did not hear what you said.  
A. Competition has induced people to take action that they had not taken before.

Q. Do you not think we all in Manitoba realize that our prosperity depends to some extent on the prosperity of the farmer? A. I hope so, but I sometimes have reason to doubt it, Mr. Fillmore.

Q. Of course, I would not take you to be an unprejudiced observer, Mr. Parker. A. No, I am sure.

Q. Do you know whether the line elevator companies have assisted provincial and Dominion Governments in the



distribution of pure seed, handling this without cost and taking in payment commercial grain from the farmer on an exchange basis set up by the Government? A. Yes.

Q. Do you know whether they have sponsored crop-testing plans at a great many stations throughout the country? A. Yes.

Q. The method being to obtain from local farmers samples of grain they are seeding and to grow these samples in test plots, each sample being identified by a number?

A. I know that.

Q. Do you know if they have actively participated in the work of the Bracken Committee in urging continuation of a guaranteed minimum price of 80 cents per bushel for wheat of the 1939-40 crop? A. That was self-evident.

Q. Do you know if they have provided funds for the carrying on of weed research work with a view to developing the best methods of cultivation to control weeds?

A. No, I did not know they did that.

Q. Do you know if in drought years the line elevator companies worked with provincial Governments in providing seed and feed grain? A. No, frankly, I do not know.

Q. Do you know if in drought areas wheat was held in line elevators against possible seed requirements in the following year and feed grain shipped from the good crop areas to the dried-out areas and distributed to individuals against relief orders? A. Well, I do not know what your machinery was. I know the pool's machinery, but I do not know what the line elevators did.

Q. Do you know if the line elevators sponsored Junior Grain Clubs under the Agricultural Extension



Departments of the universities and provided many of these clubs with registered seed necessary? A. Not in Manitoba.

Q. You say you do not know they have done that?

A. Not in Manitoba.

BY THE CHAIRMAN:

Q. You recognize certain of these virtues, I see, Mr. Parker? A. Absolutely.

BY MR. FILLMORE:

Q. Do you know whether the line elevators have participated in the work of the Manitoba Wartime Committee on Agriculture? A. Yes.

Q. Do you know if they have urged the establishment of a Western Division of the National Research Council to conduct research into finding new industrial uses and expanded markets for wheat?

MR. SCARTH: Am I to take it that there is to be a brief proving all these statements?

MR. FILLMORE: This is one way of taking a little of the sting out of some other remarks that have been made. I have a list of fifteen services that have been performed by the line elevator companies.

MR. E. T. PARKER: We will take them as read.

THE CHAIRMAN: Are these things to be measured numerically, Mr. Fillmore, one set against the other?

MR. FILLMORE: No, Mr. Chairman. We want to get credit for some of the contributions the line elevator companies have made.

BY MR. FILLMORE:

Q. Do you know whether the line elevator companies established an Agricultural Department of the North-West Line Elevators Association under the direction of





membership is \$1, which need not be paid for in cash, but will be collected whenever the first patronage dividend is distributed.

In our new set-up, no member is required to sign a contract to deliver grain, nor does he undertake any financial obligations."

Is that correct? A. That is correct.

Q. Has your membership increased rapidly in the last four or five years, or since 1939? A. Well, it depends on what you mean by "rapidly".

Q. Has the increase since 1939 been more rapid than in previous years? A. I would say it has been more rapid since 1939 than it had been in the prior five-year period; I think that is correct.

Q. You have been paying patronage dividends during the past five years? A. Yes. We were paying patronage dividends before that too.

Q. You are not in the grain export business? A. No.

Q. You have mentioned the meeting before the Board of Grain Commissioners in July, 1944? A. Yes.

Q. You called our attention to that. Were you represented there by a Mr. Steele? A. I was there myself, so was Mr. Steele.

Q. Did Mr. Steele, your General Manager, make a submission? A. Yes.

Q. Was it to this effect:

"We hereby wish to inform your Board that the present tariff rates under which we are now operating country and terminal elevators are in our opinion satisfactory rates for the handling of the 1944-45 crop.



It should be understood that we consider the storage rates of 1/60 in the country and 1/50 in the terminal elevators to be the minimum. In our opinion the maximum storage tariff should be 1/50 of 1¢ per bushel per day in country and terminal elevators.

This past year's operating results, stocks at present in store on farms and in public storage, and the crop prospects to-day, are factors which we think justify a tariff rate as suggested above."

Does that summarize your position? A. I think so.

Q. You did not ask for any change? A. That is correct.

Q. Did the line elevator companies object to storage rates only and not to any other handling charges? A. That is right.

Q. A few days later was there a meeting with the Canadian Wheat Board, or did you sign a contract with them a few days later? A. There was a meeting subsequently. I think it was more than a few days after; I have forgotten how long after it was, I think it was a few weeks later.

Q. In any event, there was a subsequent meeting at which the contract was signed by your company? A. Not at the time of the meeting, but signed afterwards.

Q. And in September a meeting was held in Regina? A. Yes.

Q. A meeting of the three pools. Now, whose idea was it? Who first thought of holding that meeting?

A. The executive heads of the three pools.

Q. Who is that? A. Mr. Wesson, myself and





Mr. Flumer.

Q. Did you have a meeting prior to your gathering in Regina? A. Do you mean the executive of the whole group?

Q. Yes, anybody. A. The three of us did.

Q. You had a meeting where? A. I don't recall whether it was in Winnipeg or Regina.

Q. You had a meeting previous to the meeting in Regina? A. Yes.

Q. Who called the meeting of the three of you, or did you just happen to meet there? A. I do not recall the circumstances of that meeting. It was not called for that particular purpose, I know that. We meet rather regularly, as a matter of fact.

Q. At one of those regular or accidental meetings, who got the idea of lowering the handling charges?

A. The three of us.

Q. Conceived at once by the three of you? A. Now, how do those ideas come about?

Q. To whom are we going to give the credit for this benefit? A. Well, you can make me the goat, if you wish, and go on from there? .

Q. What? A. You can charge it up to me, if you wish, and go on from there.

Q. I would like to give you credit for it, Mr. Parker. A. Well, I cannot tell you, Mr. Fillmore. That arises out of discussion. You do not go in with any pre-conceived ideas.

Q. There was not any discussion to the effect that you might be able to increase your patronage dividends? You could have paid more money to your members by increasing



your patronage dividends, could you not? A. Yes, we could have, but that was terifically annoying to your clients, Mr. Fillmore.

Q. It was annoying to them? A. Yes, it seemed so to me.

Q. Do you think it was more annoying than going back on your agreement and making it retroactive to the 1st of August? A. Now, listen,--

MR. SCARTH: That is not a fair question.

THE WITNESS: Do not get the impression that we are going to cartelise the grain trade, because we are not.

MR. FILLMORE: I am not going to enter into any argument on that point at all.

That is all I have to ask you.

THE CHAIRMAN: Mr. Scarth?

BY MR. SCARTH:

Q. Mr. Parker, I think hedging was mentioned this morning? A. Yes.

Q. I was just wondering if you would make a short statement to the Commission so that they would understand what is meant by hedging. Maybe all the Commissioners are fully informed about it, but I think a statement on the record might clarify the thing. It has been suggested several times that by hedging your grain you are thereby adopting the principle that is followed by line companies, or doing business along the same lines. Would you make a statement on that, please? A. In layman's language--and I cannot talk the grain trade language, because I do not know it well enough.

THE CHAIRMAN: We certainly do not.

THE WITNESS: Well, under the old pooling system



we had an initial payment, which was presumed to be substantially below what might be the price of grain. Now, it was not in 1929. When we established it at \$1 it was. Working on that principle the banks accepted your warehouse-receipts as collateral and you got your money. On the open market system they require you to get some kind of price insurance, and in simple language that is what the hedging system is. You sell the paper. You provide yourself with a price insurance; you establish a price by placing the hedge which ensures that you do not get less, and eventually you sell your cash grain and take back your hedge. It is a matter of the mechanics of getting yourself price insurance.

BY THE CHAIRMAN:

Q. You protect your long position by going short, that is all. A. Yes, if you wish to put it that way. You are long in cash and short on the hedge, if you wish to use that terminology.

BY MR. VAUGHAN:

Q. There are actual purchasers at those future prices? A. Yes. But it is not often that a country elevator delivers on a future contract.

Q. What I am getting at is, it is not just a fictitious transaction? A. No, there is nothing fictitious about it. As farmers we look at it as an insurance policy. I cannot make the language simpler than that.

Q. I think it is a point that some people do not understand, that there are actual purchasers of the wheat for those future dates. A. Oh, yes, sure there are.





BY MR. SCARTH:

Q. There is one more point that I think should be cleared up. This morning Mr. Fillmore quoted you a figure of something over \$3,000,000 that was owing by the old pool to members who had contributed the money before the pool went into bankruptcy. I do not know whether the Commission fully understand the situation. The suggestion was that those members had lost the entire amount of \$3,000,000 by virtue of what happened.

A. I am sorry, sir, if I left that impression, because that is not the truth at all. The elevator deductions of \$3,056,000 taken in Manitoba, that Mr. Fillmore referred to, were invested, and were lost by virtue of the over-payment, but by virtue of the same over-payment to the individual grower he got more than his grain actually sold for.

BY THE CHAIRMAN:

Q. The grower had the money? A. Yes. So to the extent that it was the same man who delivered, his over-payment offset his elevator deduction that he had prior thereto contributed. There is an inequity between some individuals, but generally speaking I would say that perhaps the majority, a fair majority, actually got their deductions back by virtue of the over-payment. Now, to continue the story just a little further: those growers who had not delivered in the year and had no over-payment, still had a credit in respect to their elevator deduction certificates. If they have continued to use the Manitoba Pool Elevators since that time they have taken out in patronage dividends by virtue of this continued operation sums substantially greater than the original



elevator deduction certificates. There is still some inequity; there is still an odd individual who has not been able to make delivery.

BY MR. ARNASON:

Q. Mr. Parker, you stated a while ago that you were prepared to pay out an amount held in the revolving reserve fund upon the death of a member? A. I said I was. I propose to recommend that to the annual delegates next fall, definitely. I have not the authority at the moment, but now that we have gotten some other things cleared away we propose to offer that plan, so that immediately a death occurs and they give us the necessary papers the money would be paid out. We think that should be done definitely.

Q. You are speaking of future policy now. I wonder whether you would care to express an opinion as to whether that principle could be extended a little, for instance in the case of a member who wished to move from the province or was retiring from farming. Would you consider it feasible to make some provision whereby such member could withdraw his portion of the reserve then, or have some definite time in the future set as to when those reserves could be made payable? A. I think that has possibilities, Mr. Arnason. We are trying to think our way along this road. We are not static. If a man is moving out of the province or out of the country, I think there is a very good moral obligation, and if it is not going to embarrass you financially you should give him his money. Maybe when we get the other matter cleared up we can proceed with this one next.

Q. May I question you a little further? Would you





consider it feasible as part of a general policy to set some limit as to the length of time during which these reserves should be retained by the local associations?

A. I think that is utterly impracticable.

Q. What factors would lead you to that conclusion?

A. Well, you recall quite well the seven years of crop failures in southern Saskatchewan, which came over into southern Manitoba, where the associations were in the red for three or four successive years. You would be in a most embarrassing position if you were required by law to kick out all your liquid cash or working capital during a depressed period. You would wreck the whole thing. It would be necessary to devise some other machinery if that policy were insisted on.

Q. In the event of a lean year, if the retirement date of the reserves were fixed you would have to depend on the ability of your organization to borrow, in order to retire those reserves, and that might be difficult?

A. Well, it would not be difficult at the moment, but when you got into that position it probably would be difficult. There is plenty of money to-day, you can borrow anything you want, but when you really want money you cannot get it. There is no use in cutting your throat to satisfy some theoretical idea. Our people have to realize that if they want this thing they have to take care of it themselves. I admit there is something in the thought that prompts your question, but I cannot see how it could be done at the moment, Mr. Arnason.

Q. The alternative would be to pay out your patronage dividends, and then borrow? A. We could pay out the patronage dividends to-day and go and borrow



it all back from the farmers, but under the conditions you are thinking of, Mr. Arnason, you could not borrow from anyone.

BY MR. E. T. PARKER:

Q. I hope to be just a few minutes, Mr. Parker. I shall attempt either to simplify this matter a little or else to make it a little more complicated so that we shall know nothing about it. To begin with, I assume that you read carefully the Order in Council constituting this Commission, before you prepared your brief? A. Yes.

Q. And that you realized that what is before this Commission is primarily a question of taxation? A. Yes.

Q. For the moment I am not so much concerned with the ancient history of the Manitoba grain trade as I am with the present set-up and methods of operation. Let us think of it from that angle for a moment. Am I right in saying that its general set-up, its financial structure, its method of doing business from day to day and from year to year has been practically uniform during the last three or four or five years, excepting in so far as it has been affected by the Wheat Board? Would that be a fair way of stating it? A. Yes, I think that is correct.

Q. At the present time there is in existence the Manitoba Pool Elevators that we have been talking about? A. Yes.

Q. Which was incorporated in 1925? A. Yes.

Q. As an ordinary joint stock company, under the provisions of a special Act of the provincial Legislature--I will leave out the word "ordinary", but as a joint stock company? A. Well, we conceive it to be a co-operative.



Q. I realize that. And it had at that time authorized capital? A. That is right.

Q. Share capital? A. Yes.

Q. It issued 10,000 shares, and they were \$1 shares, were they not? A. Yes.

Q. That is all that was ever issued? A. That is all.

Q. The person or corporation that received those shares was the old Manitoba Pool? A. Right.

Q. Which itself was a corporate body? A. Correct.

Q. And the Manitoba Pool paid into the treasury of Manitoba Elevators that sum of \$10,000 in cash? A. Yes.

Q. For those shares? A. Yes.

Q. And Manitoba Pool Elevators still has that cash, somewhere? And by a statute later on the shares were wiped out, were abolished, and this \$10,000 was declared as a membership fund in the hands of the Manitoba Pool Elevators? A. Yes.

Q. So by statute that became the money of Manitoba Pool Elevators, did it not? A. I guess that is right.

Q. And it has remained there ever since in that capacity, as far as you are aware? A. As far as I am aware. I do not know whether that is legally correct.

Q. At that time Manitoba Pool was the only member of Pool Elevators, was it, apart from one or two who may have had a qualifying share as directors? A. Yes, I think that is right.

Q. And that is the only member that Manitoba Pool Elevators ever had, excepting these associations which became members later on? A. That is correct.

Q. So the membership of Manitoba Pool Elevators is to-day and has for some years been the associations, and





the associations only? A. That is correct.

Q. Because Manitoba Pool has long since gone into bankruptcy and ceased to exist? A. That is correct.

Q. We have got that much clear. Will you tell me what the associations do in order to become members of Manitoba Pool Elevators? What makes them members?

A. Well, it is merely a federation. Their membership involves simply the purchase agreement and operating agreement between the Pool Elevator Company and the local association. We have filed both of those with you.

Q. Let us get that straight. Each association that becomes a member of the Pool Elevators signs two agreements? A. Yes.

Q. The two that you have spoken of here to-day?  
A. Yes. The first is a purchase agreement.

Q. A purchase of what? A. Purchase of the local facility, the country elevator, which they buy.

Q. They agree to purchase from Manitoba Pool Elevators their local elevator? A. Yes, on certain terms.

Q. Which are set out in that agreement? A. Yes. And the other agreement is an operating agreement.

Q. The agreement under which the association purchases from Manitoba Pool Elevators is turned back for Manitoba Pool Elevators to manage? A. They designate Manitoba Pool Elevators as manager.

Q. It is an agreement under which the Pool becomes the manager of the elevator which the Pool has just sold to the association, is that correct? A. That is correct.

Q. So to find out the method of operation as between the central company, the Manitoba Pool Elevators,



and the association, we look to those two agreements?

A. Yes.

Q. Assuming that each party lives up to the terms of those agreements? A. Yes.

Q. And there we shall find in detail the manner in which the associations, on the one hand, and the Manitoba Pool Elevators, on the other, should be carrying on their business? Is that a fair way of putting it? A. That is correct.

Q. To what extent, if any, has Manitoba Pool Elevators carried on business outside or in addition to or on terms different from those set forth in those two agreements? A. I do not know hardly how to answer that question, Mr. Parker. I do not think we have carried on any outside business except the two or three small things that Mr. Fillmore referred to.

Q. If you say you have carried on no business, no operations, other than as set forth in those agreements, that is one answer. But if you have carried on business other than that, tell us what it is? A. No, there is nothing that I know of, outside of what it is authorized to do under that operating agreement.

Q. Under the terms of that agreement--I presume they have been enumerated before here to-day, so we need not go over them--the Manitoba Pool Elevators manage these individual association businesses? A. The manager of the Pool Elevators company is designated to be and accepted as the manager of each local.

Q. In actual fact, from day to day and month to month and year to year Manitoba Pool Elevators are what we might call professional expert managers of the





local associations? A. Yes, of the technical business; but the local board has got a good deal of control.

Q. I know, but that is practically your business, manager of this series of local associations? A. Yes.

Q. You have no business of your own other than that? A. No---pardon me, except that seed plant.

Q. We will come to that in a moment. I am speaking now of the grain proper. A. Right, no business outside of that.

Q. As manager of all these associations, does Manitoba Pool Elevators get paid for its services? A. No.

Q. It does not? A. No.

Q. Not a cent? It works for nothing? It gives all its managerial services for nothing? A. No, they agree to pay--

Q. Just listen to the question, please. You carry on as manager of all these associations, you keep the books and do the managerial work. I am asking you simply if Manitoba Pool Elevators renders that managerial service for nothing, or does it receive remuneration for it? A. It receives exactly the amount of remuneration it expends for the service, as provided in the agreement, which enumerates the things it shall do and who shall pay for them.

Q. It renders its services at cost to those individual associations? A. That is right.

Q. That is provided for in the agreements? A. Yes.

Q. And you say those provisions in the agreements are carried out to the letter? A. Absolutely.

Q. Apart from rendering this managerial service to the associations, what other type of business is



Manitoba Pool Elevators engaged in? You started to say something about seed. A! I mean legumes and coarse seeds! We just accept the raw product and put it through the cleaners and grade it up to what is required under the Plant Products Division and sell it for them.

Q. Does the company get paid for what it does?

A. Their out-of-pocket expenses.

Q. What does it charge its losses up to, then?

A. We charged the losses for the first two years up to the contingency reserve.

Q. Of the grain trade? A. Yes; and the members were almost identically the same, grain and seed.

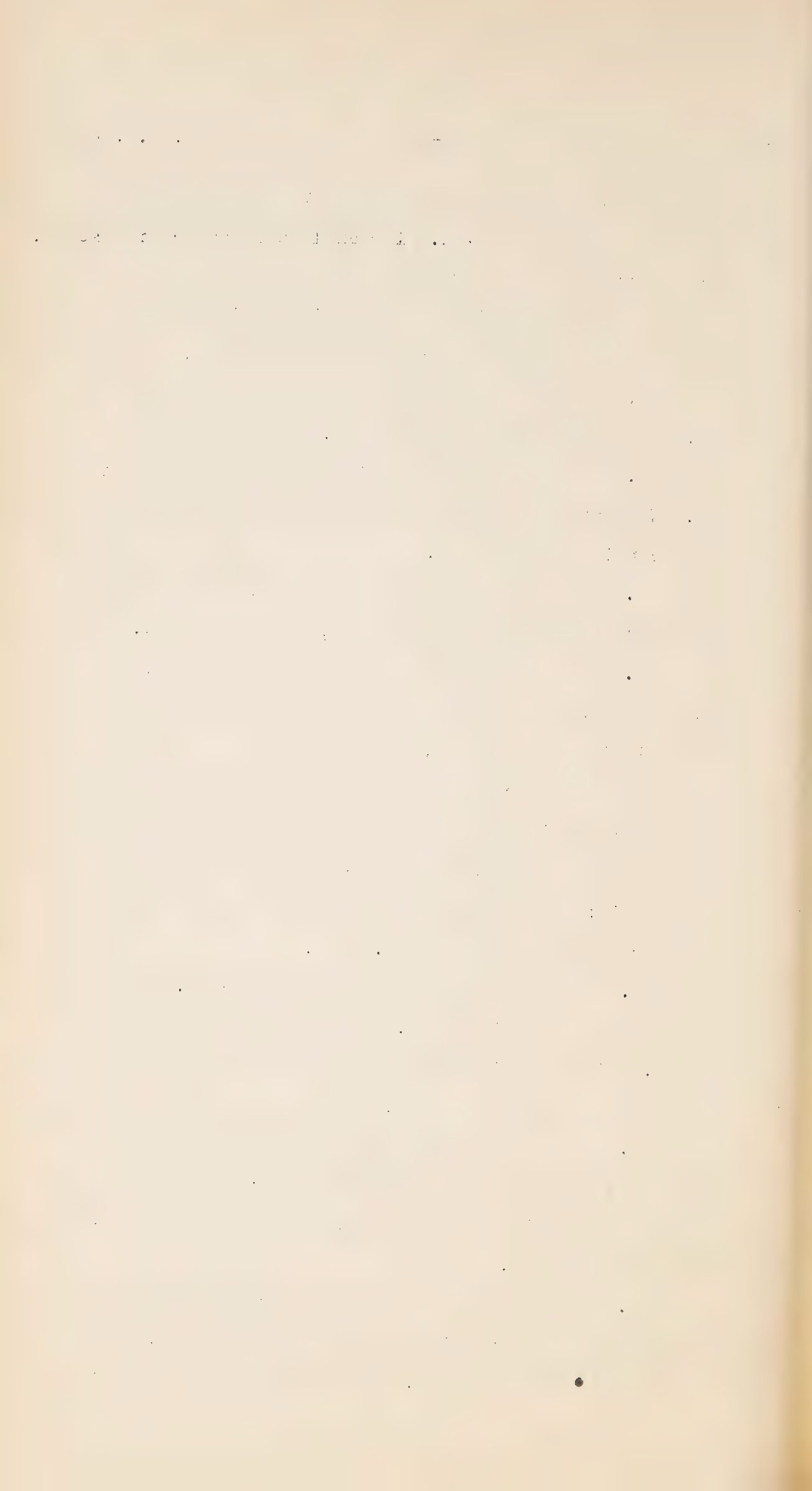
Q. So up to date you have made no profits, and what losses you have made you have charged up to the associations? A. Yes.

Q. In the course of your management and down through the years Manitoba Pool Elevators has come into possession of and is now in possession of--I am not talking about ownership; I am using the word "possession" purposely--of large sums of money? A. Yes.

Q. That has been gone over here to-day, and we need not go over it again. We know from whence they came. They are in Manitoba Pool Elevators' hands or custody or possession? A. Yes.

Q. You have told us to-day more than once and have stated in your brief that they are in the possession or custody of Manitoba Pool Elevators as trustees? A. Yes, I have said that.

Q. I want to know on what you base that statement that those funds are in your hands as trustees. Perhaps I can help you answer it. Is it based on any other



grounds or facts than that it is stated in that four-party agreement? Is that what you base that statement on? A. I think that is what we base it on.

Q. Entirely? A. No, not just the four-party agreement entirely. You would have to go back to the original agreement.

Q. I am trying to find out if it is correct to say that the funds that you are holding or controlling or handling are in your hands as trustees. You say they are, but others may dispute that statement, and in order to determine who is right we would like to know what you base your statement on. A. I say it is based on first the original operating agreement.

Q. What do you mean by that? A. In 1925, when it was incorporated, the original. It has been modified by virtue of the four-party agreement. That has been modified again slightly by virtue of the 1933 supplementary and the amendment in 1936. It is those written contracts or agreements, if we may call them that, plus custom or what we have actually done.

Q. You say it is on those agreements, plus what you have done as described here to-day, that you base your statement that you are trustees in control of those funds? A. Yes.

Q. And do I understand it is on that ground that you have stated that whether you make earnings or profits or surpluses, Manitoba Pool Elevators should not be taxed? Do you make that statement because of your position as trustee, because any earnings you make are held in trust for somebody else? A. Yes, generally speaking.

Q. Is that your position? A. That is my position.





Q. Let us come to the individual associations. You have attached to your brief a copy of the by-laws of one of the associations, have you not? A. Yes.

Q. You say it is typical. I suppose they are pretty standard, are they? A. They are all standard now. I think that is typical of the group now.

BY THE CHAIRMAN:

Q. Did you have a brief from the Sanford Association at the Winnipeg sitting? A. No, sir, but from Sperling; because I lived at Sanford and was partly responsible for the original organization proceedings at that point.

BY MR. E. T. PARKER:

Q. These associations mentioned in your brief are all corporate bodies? A. They are.

Q. Incorporated under the Manitoba Co-operative Associations Act? A. Yes.

Q. I think you have made it pretty clear, or Mr. Fillmore has, how the individual grower becomes a member of one of these associations. It is by signing the two papers that you mentioned a moment ago--an application form and what was the other thing? A. Only the application form, that is all he is required to sign.

Q. And he has to deliver his grain? A. He must deliver his grain and sign the application form, which must be formally accepted by the local board.

Q. And he can either pay \$1 down or have it deducted from his first dividend? A. Yes; they do it both ways.

Q. Are those associations or any of them doing business, that is handling grain, for others than persons who are members? A. Yes.



Q. And have been for some years? A. Yes.

Q. That is a common practice with them all? A. Well, they have all got a public licence.

Q. I understand that. I do not care why they are doing it; I am merely asking you whether as a matter of fact they do it. A. They do.

Q. And a very large volume of what they do is non-member business? A. No.

Q. Are the accounts in the associations' books carefully kept, so that you are able to ascertain the amount of business done by members and non-members?

A. Yes, we can tell you that at any time.

Q. How does it run, roughly? A. I have recited in the brief that it is 97 point something per cent, and I said verbally that as to-day it is 99 per cent plus, that is member business. That is the over-all picture.

Q. But are there some individual cases where to your knowledge there would be a variation? A. There is a variation, but I can say to you that there is none of them less than 88 or 89 per cent.

Q. That is, 88 per cent of the total? A. No, but of the requirement under the Act--pardon me, you are getting me balled up. It is 88 per cent of the total.

Q. Sometimes we are not certain whether it is 20 per cent of the total business or 20 per cent of the member business. A. I think one or two are around 87 or 88 per cent, and the rest are all over 90. There are obviously only three or four in the lower position.

Q. Have you a copy of the application that new members sign? A. I have not, no.

MR. SCARTH: I will file one with the Commission.





BY MR. E. T. PARKER:

Q. Perhaps you can tell us roughly what the application says? I know it is not quite proper to ask you to give evidence as to a written document, but perhaps in the circumstances you might be allowed to tell us the effect of the application. A. It is pretty simple. It says

something like this: "I hereby apply for membership in the blank association and agree to subscribe to the by-laws, rules and regulations." It is very simple.

Q. There is no obligation on the applicant's part to supply his wheat? A. No!

Q. And in the acceptance of it nothing is said to place any obligation on the association's part towards him, other than as we find it in the by-laws and charter of the association? A. That is correct.

Q. Now we come to the by-laws of the association, as to your association's obligation to handle those surpluses. I would refer you to by-law No. 39, on page 11, which says that any surplus arising from the business of the association shall be distributed wholly or in part among members in proportion to the volume of business done by each with or through the association, and may be paid immediately in cash or may be credited to the member's account on the books of the association and retained and used by the association without interest for such time as the directors in their absolute discretion may decide to be advisable and in the interests of the association, and may thereafter be paid to the members as the directors by resolution authorize. Can you point to me anything in the associations' charter, in their by-laws, which enlarges that provision, which will



indicate in any way that the member has a right to that surplus other than by the grace of the directors, at such time as they may see fit to make it available to him?

A. No, as far as I know there is not.

Q. You would probably know, if there was?

A. There may be, but if so I have forgotten it. I have just forgotten whether the new by-laws put any modification on that or not. I remember definitely why that clause was worded in that way.

Q. I do not want a misleading or misunderstood statement. If there is any possibility of that clause having been modified to change those obligations, I want to know.

A. I think that is correct as it is.

MR. SCARTH: I think you asked him a double-barrelled question.

MR. E. T. PARKER: I did not intend to do that.

MR. SCARTH: I think you asked him first whether the member had any right to the surplus, and then whether the directors could decide the time at which the surplus would be paid out. I do not know whether the witness considered it in both ways.

BY MR. E. T. PARKER:

Q. What I wanted to find out was if there was any other by-law anywhere which would cut down or enlarge upon what is stated there.

A. There is not in our by-laws, Mr. Parker, but have you read the supplementary and amended supplementary of 1933 and 1936?

Q. Supplementary what?

A. Agreements. They are attached to the brief.

MR. SCARTH: They are quoted in the brief.



BY MR. E. T. PARKER:

Q. I am a little confused. How do those agreements affect the member who may have signed his application last week? A. Those agreements have been properly signed and sealed on behalf of the company and the association, and they are binding.

Q. Upon a new member? A. Absolutely. At least, we always interpreted it that way. Legally, I do not know.

Q. I think you stated that the only way a person could become a member was to sign an application. A. And to abide by the rules, regulations and by-laws of the association. And in the rules I interpret that we include the supplementary agreements. But those agreements are quite legal in character, and I may be wrong.

Q. You say that a member joining your association now, by signing that application is making himself bound by the by-laws of the association and also by those agreements? A. Well, that is our interpretation. We think he is. That interpretation is backed up by practice.

Q. That is what I was coming to. The agreements will have to speak for themselves. We have heard quite a lot about practice from witnesses who apparently attempt to argue that members have certain rights to get reserves because of the practice of the directors never to refuse them when they are asked for. Perhaps I should not put this to you, as it may be a legal question, but you do not consider that as conferring a right on the member, do you? A. Maybe not in the legal sense.





Q. That is the situation, anyway. A. That is the situation.

Q. Near the end of your brief, on pages 16 and 17, you make an argument which I do not quite appreciate. My learned friend and you had some discussion about these benefits that the company has conferred on the community in general. As to the benefits which you suggest have been conferred by your company on the community by reason of the items that you have specified there--things which Mr. Fillmore suggested his companies were doing equally well--you will agree that those things have absolutely nothing to do with the question before this Commission? A. Those things that were specified, no.

Q. Then what was your point in putting them in this brief? Just a little padding, I suppose. A. No, it was not, Mr. Parker. I had a sincere reason for putting some of those things in that brief. We tried to show that what the company is seeking to do is to build up a citizenship within the country.

Q. I understand. I do not think anybody questions that you are doing excellent work; nobody has ever questioned that before this Commission. But I want to know whether there is the suggestion--and if so whether there is any substantial body of public opinion agreeing with it--that because of these very fine things the associations do in the community, by reason of the money they spend in doing these things, and so on, they should receive some consideration in the matter of income tax. Do you agree with that? A. No, I do not agree with that.



Q. Therefore, it has nothing to do with the question of taxation? A. No.

Q. Likewise when you make an argument that the farmer has had a hard time because of climatic conditions, that has nothing whatever to do with the question of taxation?

A. I think that definitely has a moral influence. I think that this Commission is studying this problem not from its legal aspects, not from any discriminatory aspects--of course, all income taxes are discriminatory in character, that is obvious--but the Commission is studying it from the point of view of the social implications of the business being conducted and the ultimate impact of the tax when it is imposed. There is nothing legal in it.

Q. Can that question be affected by climatic conditions? A. To this extent, that the farmers are very vitally affected by climatic conditions, and they have attempted through these organizations of their own to lessen their costs of production. We have been asked and encouraged to do things of this kind. Now, when we do them and we throw out those huge sums, there is a suggestion that they should be taxed away. Well, why go to the bother of trying to benefit your position if someone is taxing it away? Where would we get the God-given right to set ourselves up as a taxing agency for the farmer or anybody else? Why should anyone determine that one cent a bushel or three cents or five cents a bushel extra should be charged to the farmer in order that we might try to make ourselves look patriotic by paying that over as income tax? That is the way we look at it.





BY THE CHAIRMAN:

Q. You will admit, Mr. Parker, that there are quite a few legal tripwires that have to be looked after?

A. Oh, yes. I am not giving complete approval to everything in this country that calls itself co-operative!

BY MR. E. T. PARKER:

Q. I want to revert to those handling charges. It is pretty clear that they were reduced last year from three cents to one cent? A. Yes.

Q. I think you told us that three cents or even five cents is less than cost, actually? A. If that were the only revenue it would be less than cost.

Q. In other words, if the handling were operated separately as a department and stood on its own feet, it would take more than that to make it pay? That is what you mean by that? A. That is what I mean.

Q. I take it, then, that the storage charges are carrying the undercharge on the handling? A. I cannot quite answer that.

Q. Do you want to say anything about it? A. Yes. I do not think anyone, even those who have been in the elevator business a very long time, people who know far more about it than I do, can determine just what the relationship of the storage charge to the handling charge should be. The presidents of two of the largest line companies who met before the Board of Grain Commissioners made out a very good case as to why the storage charge should be 1/30¢ per bushel per day this year, and I presume that they thought it should be that much, in view of the risks that they were taking. We thought it should be 1/60¢. Now, I cannot reconcile the two



figures. The men I am referring to were old men in the grain business before I knew what grain was. I do not think you can say that one operation is carrying the other. I have pointed out that we have attempted to lower both charges.

Q. The two combined gives you a surplus, do they not?

A. Yes. But they themselves are not all the revenues that accrue from the handling of grain.

Q. Do you say that the storage charges and the handling charges if put together in a compartment would be less than the cost of the two operations combined? In other words, is it not true, as I suggest, that the storage charges do carry the handling charges, or at least are high enough to do that? A. We could have washed out the handling charge entirely this year and still been all right.

Q. That is scarcely an answer to my question.

A. I cannot say.

Q. If you cannot say, we will let it go! A. We have attempted to keep a balance.

Q. I was wondering, when you found your revenues were up, what induced you to lower voluntarily the handling charges instead of the storage charges. Why did you not lower the storage charges instead of the handling charges, or both? What was the deciding factor there? A. I do not know that there was any deciding factor. We had asked for 1/60¢ for the storage charge. It was obvious that our competitors would not agree and, as I explained, we compromised on 1/55¢. We just came to the conclusion that it was no use in trying to come to an agreement.



Q. But you said your handling charges were reduced 2 cents? A. Yes. That was of more immediate benefit to the farmer.

Q. As a matter of fact, did you ever consider the storage charge at all from the point of view of whether it should be reduced? A. Yes. We considered lowering them both.

Q. You spoke about a mortgage which is held by the members. I am mentioning this merely for clarification. I do not quite get what you mean by that. A. You might not call it a mortgage, in legal terminology, held by the members.

Q. The mortgage is on the terminal elevator?  
A. Yes.

Q. That terminal elevator was bought by somebody. Who bought it? A. The Manitoba Pool Elevators bought it.

Q. The Manitoba Pool Elevators bought it, and not having the money to pay for it Manitoba Pool Elevators gave a mortgage? A. Yes.

Q. Gave the vendor a mortgage? A. Yes.

Q. And that vendor still holds that mortgage, there is still money coming to him? A. No, he has been paid off entirely.

Q. Did he assign the mortgage to anybody when it was paid off? A. No.

Q. Was it released? A. I do not know whether you call it released or discharged.

Q. What is its status? A. I have forgotten what the total amount was, but it was roughly half a million dollars.





Q. The amount does not matter. A. We paid him in full and got a receipt for the money and destroyed it, but we did not do that until we went to the people, the farmers themselves, and asked them if they would care to lend money for that specific purpose.

Q. To put you in funds so that you could pay off the mortgage? A. Yes, to give us their funds to pay off the mortgage, and they would be repaid in five equal annual instalments.

Q. In other words, you borrowed the money from your members and then you went and paid off the mortgage?

A. Yes.

Q. Manitoba Pool Elevators borrowed money from its members to the extent required to pay off the mortgage?

A. Yes.

Q. And that is still owing to its members? A. Yes.

Q. Is it bearing interest? A. Yes, 5 per cent.

Q. You are paying that every year? A. Yes.

Q. And reducing it? A. Yes; we have made one payment off it.

Q. You are paying the interest and reducing it out of surplus earnings? A. No.

Q. Where are you getting the money to pay on the mortgage? A. Depreciation taken on the elevator, on the terminal.

Q. Who owns the terminal, Manitoba Pool Elevators?

A. That again is a legal question.

Q. Who has the title? A. The title rests in our office. It is in the name of Pool Elevators, and Pool Elevators is owned by these association.

MR. E. T. PARKER: I cannot mix it up any more.



BY MR. ELLIOTT:

Q. Were those loans obtained from the members on an individual basis? I am speaking now of the loans obtained to pay off the mortgage. Could any member lend any amount that he wished, or was the money obtained from the members in some other way? A. It was obtained in that way and in another way, Mr. Elliott. Some of the associations voluntarily said, "We will take a certain proportion of the cash that is immediately available to us and apply it against the loan." The allocation was made and every member in that was was notified of the amount of his loan and the rate it was bearing and the date it would be repaid. In some other instances we had individual amounts sent in to the office by cheque to be devoted to that purpose.

Q. Is the loan payable as of some one date?

A. Yes; it is payable on the last day of the calendar year, as I recall it.

Q. That is the interest? A. The interest started on January 1st, 1944. The first payment was made some time around Christmas, or at any rate some time in December, 1944.

Q. The contract bears a definite terminating date?

A. Yes.

Q. There is a sentence on page 17 of your brief that I wanted to ask you about. It is really a submission rather than a statement of fact, and if you can elaborate on it I would be glad to have an explanation. The sentence is this: "We submit that any income tax and excess profits tax collected from any elevator company is actually paid by the farmers





who deliver the grain to that elevator." What do you mean by "is actually paid"? It is not literally true, and I am wondering what you mean. A. Well, I suppose it has no basis in a legal argument, Mr. Elliott.

Q. I am not a lawyer. A. As a farmer, as I look at it, if we paid an ordinary elevator company its operating expenses and a fair return on capital to take care of its depreciation we would be satisfied, but we have been paying for these elevators at normal and accelerated depreciation for the last forty-odd years and we never owned them. Eventually we have resold them to another group of shareholders and started to pay for them all over again. Now, our point is that we keep on paying, generation after generation, for elevators that are forty and fifty years old and must have been written off once or twice or three times, and it looks to us as if we are continuing to pay not only the operating expenses and a return on capital the first time, but we are providing all the profits over and above that.

Q. But this sentence says that the farmers pay the income tax and the excess profits tax collected from any elevator company? A. Because all their profits are made on the grain, and as a secondary industry I do not think they are entitled to anything except a reasonable return on the original invested capital.

Q. But a charge is made by an elevator that is not in that year making any profits or paying any taxes, much the same as the charge made by an elevator that is making profits and paying taxes? A. Yes.

Q. In the one case, evidently, from the charges



made to the farmer no money goes to pay income and excess profits taxes. But in the case of the elevator that is making profits, the money must come from there to pay the taxes. A. It comes out of the grain, in our opinion.

Q. I am still not clear as to the exact meaning you intend us to take from that statement with regard to income tax and excess profits tax. A. I do not think I can make it any plainer. I will admit it has got no basis in law--I do not know much about law, but I admit that quite frankly. In my opinion the grain is the primary thing. An elevator company is a service organization, and any money that comes to it over and above its capital and operating expenses is profit that has accrued to it out of the value of the grain, as we see it.

Q. Your point was not that if the income and excess profits taxes were increased the farmers would get less for their grain? A. No. The farmer's price had nothing to do with it.

BY MR. VAUGHAN:

Q. As to the loans that you referred to, were they made entirely voluntarily by the members, or was there some resolution by an association stating that its members should do so and so? A. A part of it was voluntary, came from some individuals, but the major proportion came out of the cash patronage dividend immediately available for distribution. At the local annual shareholders' meeting the members themselves took a look at it and said, "We will reinvest \$500" or \$1,000, as the case may be. They named the amount definitely.

Q. Each member had to subscribe some, did he?

A. Each member of that association, but not of all the



associations. Some of them turned it down and took all their money out. If there was a minority which did not want to go into this, there was no compulsion in respect to it. When an association went into it, it was not a majority vote, but I should say it was a unanimous vote.

Q. I wondered if there was a little bit of compulsion? A. No; I say frankly that I do not think so, because the smallest minority would discourage the majority from doing that. It was a matter of voluntary agreement.

BY MR. E. T. PARKER:

Q. In whose name are the sales of the grain made?

A. In the name of the trustee.

Q. As trustee? A. No.

Q. There is nothing on the face of it to indicate that? A. No, not a thing.

Q. Perhaps this is a question of law. Who is liable--

MR. SCARTH: I think my friend should be careful not to go too far.

MR. E. T. PARKER: All right. That is all, thank you.

THE CHAIRMAN: Mr. Steer, have you any questions?

MR. STEER: No questions, sir.

THE CHAIRMAN: That completes this brief. It is agreed that we shall adjourn until Monday morning at 10 o'clock.

At 4.50 p.m. the Commission adjourned until Monday, April 30, at 10 a.m.





*Canada. Co-operation, Royal Can.*

ROYAL COMMISSION  
ON  
CO-OPERATIVES

1945

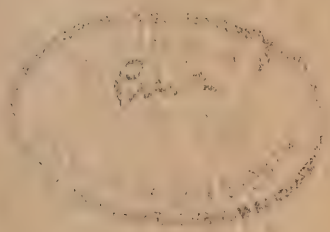
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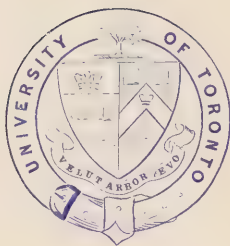


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ROYAL COMMISSION ON CO-OPERATIVES

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Ottawa, Monday, April 30, 1945

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United Grain Growers

R.S.Law, President and General Manager

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ROYAL COMMISSION ON COOPERATIVES

The Commission appointed to inquire into the present position of cooperatives in the matter of income and excess profits tax, organization and business methods and operations, and the comparative position of persons engaged in business directly competitive therewith, met in Ottawa, on Monday, April 30, 1945.

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PRESENT:

The Hon. Mr. Justice ERROL M. McDOUGALL, Chairman

B. N. ARNASON	)	
G. A. ELLIOTT	)	Commissioners
J. M. NADEAU	)	
J. J. VAUGHAN	)	

Eugene T. Parker, K.C.	Counsel
Major H. D. Woods)	Associate
J. A. Chapdelaine)	Registrars
Colonel G. W. Ross	Executive
	Secretary

---

APPEARANCES:

R. H. Milliken, K.C.	)	Saskatchewan Cooperative
	)	Producers Limited,
	)	(Saskatchewan Wheat Pool)
M. M. Porter	)	Alberta Wheat Pool
Ben S. Plumer	)	" " "
H. S. Scarth	)	Manitoba Pool Elevators
W. J. Parker	)	" " "
G. H. Steer	)	United Grain Growers Limited
H. L. Griffin	)	" " " "
J. E. Brownlee	)	" " " "
W. H. Howard, K.C.	)	Northwest Line Elevators
Cecil Lamont	)	" " "
W. P. Fillmore	)	" " "
W. B. Frances	)	Group of Cooperative
		Associations

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Ottawa,  
Monday,  
April 30, 1945.

The Commission met at 10 a. m., Mr. Justice McDougall presiding.

MR. PARKER: We proceed this morning with the brief of United Grain Growers. Mr. Steer, I believe, is in charge.

MR. R. S. LAW

President and General Manager,  
United Grain Growers Limited,  
having been duly sworn  
testified as follows.

BY MR. STEER:

Q. You first became an official of United Grain Growers in 1920? A. 1921.

Q. And in 1930 you became president and general manager? A. Yes.

Q. And have occupied that position since that time? A. Yes.

Q. Prior to 1920, I understand, you were farming in southern Alberta? A. Yes.

Q. Since 1911? A. Yes.

Q. And prior to that you were in England where you were connected with the National Farmers Union?

A. I was farming in England before.

Q. And had an official connection with the Farmers Union? A. Yes.

Q. This submission that has been filed on behalf of your company was considered in draft form by the board first in January of this year? A. January 9.

Q. Certain instructions were given as to its final form and the final draft was approved by the board about the first of March of this year? A. Yes. It was the





first of March.

Q. Will you read the submission.      A. The brief reads:

"I    Introduction

"United Grain Growers Limited is a cooperative. It is farmer-owned and controlled with a membership of approximately 35,000 prairie farmers. Originally incorporated in 1906 as The Grain Growers' Grain Company Limited, it now has a record of almost forty years of successful operation. It is, in fact, one of the oldest cooperatives in Canada. It is also one of the largest. Information as to the activities of the company as a cooperative is available in the annual report on cooperatives published by the Department of Agriculture.

"The company is a direct outgrowth of the farmers' movement in the early years of this century. It represents the first effort of that movement to improve the position of the western farmer under the difficult and trying conditions of pioneer life on the prairies by directly entering the commercial field of marketing and handling grain. The accepted authorities on cooperative development in Canada have made extensive references to it and to the services it rendered to western farmers in improving conditions affecting the marketing of grain. It pioneered the field of cooperative handling and marketing of livestock. It differs from the majority of cooperative enterprises in Canada in that it is engaged both in marketing its members' products and in the distribution of such necessary farm supplies as coal, flour, feed, binder twine, salt, wire and other like commodities. In that field it was also the pioneer. Its constitution and form of organization conform as closely to the Roch-



dale plan as that of any other large cooperative and certainly represents the adaptation of that plan to conditions prevailing on the prairies in the first twenty years of this century."

Later on, on page seventeen, we make reference to our conception of the Rochdale plan.

"The company is unique in that it is the only co-operative producers' organization incorporated by special Act of the Parliament of Canada. Having regard to the fact that parliament passed that Act, and particularly to certain provisions inserted therein by parliament as late as 1941, it may be assumed that the Act fairly represents parliament's conception of cooperative organization."

On pages fourteen and fifteen we refer to these "certain provisions."

"The company is also unique in the length of time and extent to which, as a cooperative, it has paid income tax. Its action in this respect and its attempts to secure equality of tax treatment with competing cooperatives will be referred to later.

## II - The Company's Business

"The company owns and operates 529 country elevators, mainly in the provinces of Manitoba, Saskatchewan and Alberta, with three in British Columbia. It owns and operates a terminal elevator at Port Arthur with a capacity of 5,500,000 bushels, with temporary annexes adjacent thereto with a capacity of 4,000,000 bushels. It also operates under lease a terminal at Vancouver, with a capacity of 2,600,000 bushels, and another at Victoria, B.C., with a capacity of 1,000,000 bushels. For the establishment and conduct of such an extensive elevator system, large sums





are required. The balance sheet of the company shows that at the end of the last fiscal year it had invested \$11,847,441.00 in capital facilities. That amount does not include \$1,125,000.00 spent since 1941 on temporary storage annexes adjacent to country and terminal elevators. Funds for the creation of these capital assets, beyond the amounts contributed by members, were not obtained by deductions from the proceeds of the sale of members' grain nor by holding back cash represented by deferred payment certificates, but by building up reserves and using the same to extend services to farmers throughout the west.

"The company has borrowed extensively. Outstanding bonds now total only \$2,600,000.00, but the company's bonded and mortgage debt has, in the past, stood as high as \$5,000,000.00. Due to a good credit standing, the company has issued bonds at rates comparing favourably with those prevailing for other industrial bonds. The last financial statement shows bank borrowings of over \$10,500,000. These have sometimes been over \$20,000,000.

"The company's activities may be described under four headings: its grain business, its farm supplies business, its educational and cultural work and its incidental business.

"Grain Business:

"During its first six years the business of the company was largely confined to selling on commission grain consigned to it by members and patrons. Occasionally it bought grain in carload lots for subsequent resale. Some business is still done on the commission basis.

"In 1912 the company entered the elevator business. A complete elevator system receives grain in wagon and



truck loads at country elevators and discharges most of it from terminals in cargo lots into the holds of lake vessels or ocean-going ships. The entry of the company into that business meant handling and storing grain at tariff rates. In addition the company has operated as agent for the sale of grain, and as principal in buying and selling grain on the open market."

That preference to principal merely refers to the fact that we are buying and taking possession of grain. "It has also acted on behalf of The Canadian Wheat Board in receiving, handling and storing grain, and in making initial payments therefor. Until that board was established in 1935, the company operated in the open market. At first farmers valued highly the right to have their grain handled and sold as special binned, i.e., with its identity preserved in special bins in country elevators, so that it could be graded in carload lots by government inspectors. Gradually, with improvements in elevator service, including both grading at country points and prices offered there, farmers came to prefer to dispose of their grain on a cash basis at country points. With respect to such grain, this company has been accustomed to join with other elevator companies in a daily broadcast of prices offered, for the information both of the general public and of elevator agents. The usual practice has been to make contracts for forward sale to avoid risk of changes in price levels. Such forward contracts have in the past been largely made through the Winnipeg Futures Market. With respect to grain not acquired on a cash basis, which is handled or stores in elevators, tariffs are set annually by the Board of Grain Commissioners."



That is provided for under section 83 of the Canada Grain Act.

"Any company may operate on lower tariffs by filing same with the board."

That is also provided in the same section.

"Each company knows the tariffs under which its competitors are operating.

"From the inception of The Canadian Wheat Board in 1935 until September 27, 1943, with the exception of a two year interval farmers had a choice between delivering their wheat to the board and selling on the open market. As a rule they chose the latter method during such times as open market prices were higher than the initial payment offered by the board. On September 27, 1943, open market trading in wheat was suspended by the government and thereafter all western wheat went to the board. The elevator company receives, pays for and handles all wheat as agent for the board under an agreement, the terms of which are usually settled annually in conferences between the board and the various companies. We have always been assured that these are uniform in terms.

"Since March, 1942, all flax deliveries at country elevators have been purchased by the company for account of the Canadian Wheat Board. Oats, barley and rye are still bought and sold under open market conditions.

"Meeting one or more competing companies at the majority of points at which it has elevators, the company is aware of the business methods of its competitors and can therefore say that except for that period from 1923 to 1930 when the wheat pools operated on a contract pool basis, the methods of operation of all companies, including the pool elevator companies, have been alike.





The grain business is one of the most competitive in Canada. It is also one of the most closely regulated. The effect of competition, of The Canada Grain Act and of board regulation is that business methods of elevator companies whether cooperatives or not must be much the same.

"This company, through its association with the Canadian Council of Agriculture, as well as by independent action through the Grain Growers' Guide, played a considerable part in shaping and securing amendments from time to time of The Canada Grain Act. It has claimed and it has been accorded credit for much of the improvement in the grain and elevator business which has undoubtedly taken place over the years. That improvement has taken place is evidenced by the fact that in contrast to the experience of previous commissions, practically no complaints as to country elevator service were received by the Royal Grain Inquiry Commission of 1936-37.

"Farm Supplies Business:

"The company was the first cooperative to undertake in a large way the distribution of commodities such as binder twine, coal, flour, feeds, salt, oils and greases and other supplies required on the farms. It distributes annually, for example, from nine to twelve million pounds of binder twine, depending on crop conditions. It owns and operates a plant in the city of Edmonton for the manufacture of a complete line of livestock feeds, most of which is sold and distributed through its country elevators.

"Educational and Cultural:

"Through a wholly owned subsidiary the company



publishes The Country Guide, a monthly farm magazine, with a circulation of 185,000. The publication was originally established in 1908 as a weekly paper under the name of The Grain Growers' Guide. It is well and favourably known for its educational and cultural work, as well as for its advocacy of policies to promote the welfare of western farmers."

MR. STEER: I would like to file one copy of that magazine and if the board would like to have copies for their own perusal I would be glad to file them.

THE CHAIRMAN: I think one will be enough, Mr. Steer.

THE WITNESS: The brief continues:

"The company has contributed largely to the support of educational and social work among farm people of the prairies. It has made annual grants to such organizations as The Manitoba Federation of Agriculture, The United Farmers of Alberta, The Canadian Council and later The Canadian Federation of Agriculture, The Canadian Council for Adult Education, Community Life Schools, conducted under university direction in Alberta and Manitoba, and rural extension and research work through the universities. Grants of this kind over the years now total over \$400,000. The company's record in this respect compares favourably with that of any other cooperative.

"Incidental Business:

"The wholly owned subsidiary, the Public Press Limited, was incorporated to print and publish the Grain Growers' Guide. It also does all of the company's printing and in connection with this it does a certain amount of general printing.

"United Grain Growers Securities Company Limited was





incorporated in 1918 mainly for the purpose of acting as agent in placing and taking care of insurance on the various plants of the company and its subsidiaries, and on grain handled by the company. Hail, fire, automobile and accident insurance is written for farmers and to some extent for the general public.

"Service to farmers has been the guide to the extension of the company's business. Sales of binder twine relate to the harvesting of the crop; other supplies enter into the farmers' cost of production. The insurance business gives service to farmers and at the same time represents a reduction in costs to the company in handling grain. In England and elsewhere the conduct of educational work is regarded as an essential function of co-operatives and the Country Guide is cultural and educational in its objectives.

"The accounts of the company are presented annually in consolidated form. Copies of the consolidated balance sheets and profit and loss statements for the past five years are filed herewith.

### III - The Company's Organization

"We have referred to the company as the pioneer co-operative of western Canada. This company and other co-operatives in the west did not begin as part of a deliberately planned cooperative movement."

I refer there to cooperatives formed prior to 1920.

"They sprang rather from what has been described as the farmers' movement, and along with certain non-commercial farm organizations, were founded to solve in a practical manner the specific problems presented at different times



to western farmers.

"The early years of the present century were years of great expansion on the prairies, due primarily to the unprecedented rate at which land settlement was carried on under the Dominion free homestead policy. While railroad extension followed settlement westward, and roads were hastily constructed, still communication facilities were not good and the comparative isolation of farming communities encouraged the formation of local farm associations and facilitated the development of central farm organizations. As farm economy was largely based on grain production it was only natural that grain handling and problems of marketing should be the main concern of those organizations.

"Grievances of farmers at that time arose out of pioneer conditions as settlement and grain production expanded more rapidly than the ability of railways to give satisfactory service. They arose partly from the slow growth of effective competition in grain buying and handling in the country. Elevators were needed at country points and although the railways at first provided terminal elevators they did not desire to provide country country elevators. To encourage elevator building they gave a monopoly of grain handling at country points to established elevators, and refused, except in special cases, to allow farmers at such points the privilege of loading their own cars. (See Patton--'Grain Growers Cooperation in Western Canada,' p. 14.) That situation inevitably led to abuses and resentment. In addition trouble arose from lack of satisfactory provision either for regulating the grain trade or for grain grading.



"Three different courses were followed in an endeavour to secure improvement, namely:

- (1) Parliamentary agitation which began in 1898 and led to the passing of the first Manitoba Grain Act.
- (2) The formation of the Territorial Grain Growers' Association in 1901, the Manitoba Grain Growers' Association in 1903 and, subsequently, similar organizations in Saskatchewan and Alberta.
- (3) The organization of The Grain Growers' Grain company in 1906 due to the development in the membership of the said organizations of the opinion that it was necessary for a farmer-controlled company to engage in the grain business. Not until some years later was the operation of elevators considered, as at that time farmers favoured government operation thereof.

"As there then existed no adequate legislation to provide for the incorporation of a cooperative, the company was incorporated under the Manitoba Companies' Act. From the beginning it advertised its intention to pay patronage dividends, but was forced to abandon that intention for reasons which will be referred to later. It did, however, obtain from the Manitoba Legislature (Manitoba Statutes--1909, C.89) special legislation to provide for two other cooperative features, namely: a limit of four to the number of shares which could be held by any one person and equal voting rights for all members, regardless of the number of shares held.

"In 1911, the company applied for and obtained a special Act of Parliament (C.80, 1911) incorporating the Grain Growers' Grain Company Limited. The Act provided for:





- "(1) Authorized capital, \$2,000,000, divided into shares of \$25 par value. (s. 4.)
- (2) Only farmers or the owners and lessees of farm lands and the wives of such persons to hold shares. (s. 6.)
- (3) No person to hold over forty shares. (s. 5.)
- (4) One man, one vote. (s. 8.)
- (5) Authority to distribute patronage dividends, but to shareholders only, after payment of a dividend on capital stock at a rate of at least 8 per cent, and after setting aside such reserves as deemed necessary by board of directors. (s. 17.)

"The payment of patronage dividends in this first Dominion Act was restricted to shareholders, notwithstanding the application of the company to be empowered to pay such dividends to both shareholders and patrons.

"In 1915 the company obtained an amending Act (Statutes of Canada--1915, c. 73), giving it the right to pay patronage dividends to both shareholders and patrons, leaving to the discretion of the directors the rate of dividend payable on share capital (s. 6.) That rate was later established at 5 per cent.

"In 1911 the Saskatchewan legislature, following the report of a royal commission, passed an Act (Statutes of Saskatchewan, 1910-11, c. 39) incorporating the Saskatchewan Co-operative Elevator Company Limited, a farmer-controlled company, empowered to acquire and operate elevators. The government loaned 85 per cent of the cost repayable over a long term of years. The power to pay patronage dividends, to both shareholders and customers, after payment of dividends on capital stock, was included. This company and the Saskatchewan Co-operative



Elevator Company were for years members, and the principal supporters, of the Canadian Council of Agriculture.

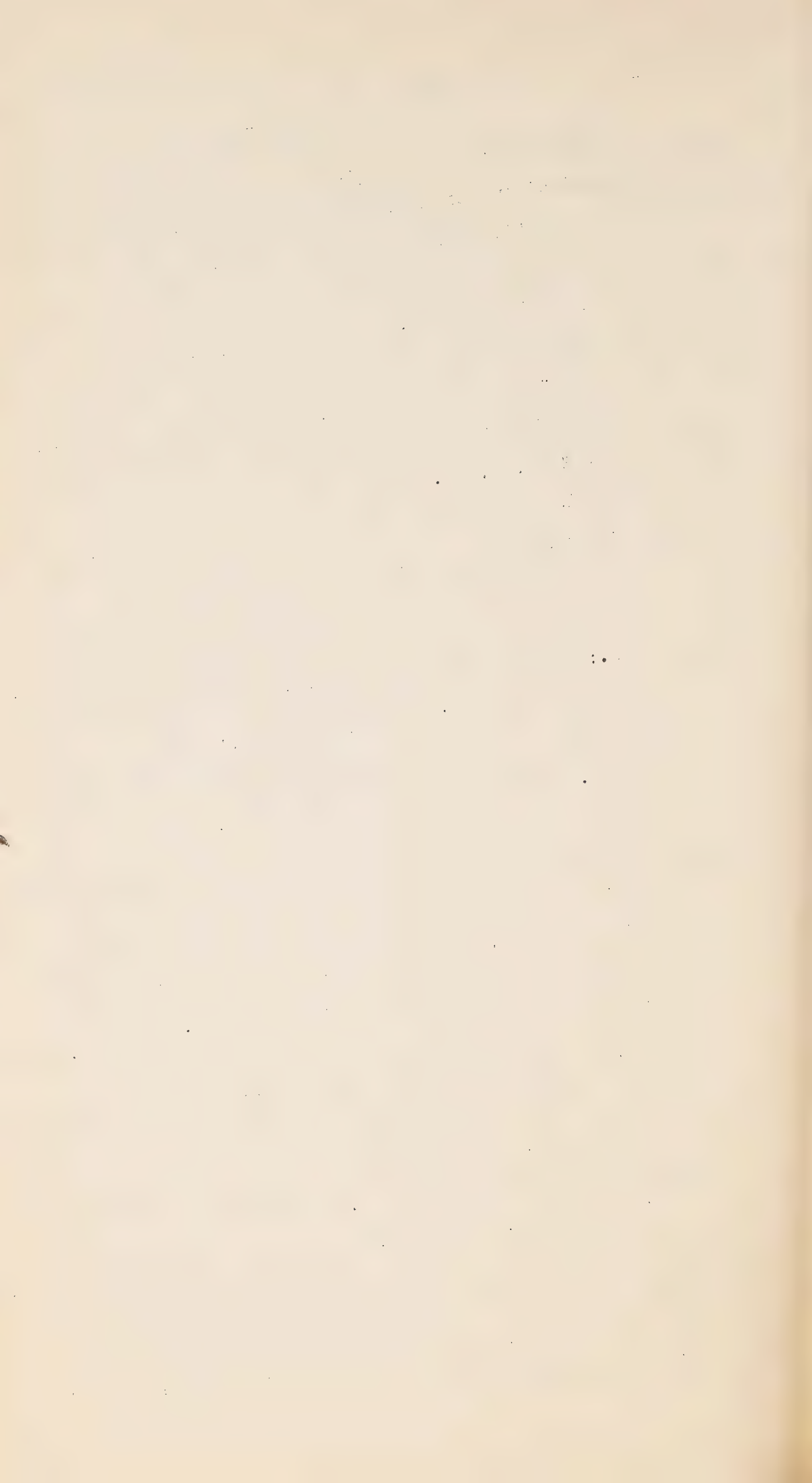
"The Manitoba government brought to an end a brief and unsuccessful period of government ownership and operation of country elevators by leasing in 1912 and subsequently selling its line to the company.

"In Alberta in 1913, the Alberta Farmers' co-operative Elevator Company Limited was incorporated (1913 1st Sess. c. 13.) The Alberta government assisted in the acquisition of elevators in the same way as did the Saskatchewan government.

"The Acts incorporating these three companies followed almost exactly the same basic form of organization, viz.: share capital with a limitation of share holdings, the principle of 'one man, one vote,' and the power in the directors to refuse their consent to the transfer of shares. They differed only in detail, such as the par value of shares and the rate of dividends to be paid on share capital before payment of patronage dividends.

"It was during this same period that the prairie provincial governments first passed legislation to provide for the incorporation of cooperatives. Each provincial act provided for the share capital form of organization, and still in Alberta consumers' cooperatives can only be incorporated on that basis with a statutory priority for payment of dividends on share capital before payment of patronage dividends.

"It is clear, therefore, that cooperation in western Canada was founded on Rochdale principles with the share capital form of organization, including the payment of interest on share capital, a fact which, perhaps, was not sufficiently considered in drafting section 4 (p) of the





Income War Tax Act.

"In 1916 the Grain Growers' Grain Company and the Alberta Farmers' Co-operative Elevator Company agreed to amalgamate. To carry the amalgamation into effect amendments to the charter of the former company were obtained (Statutes of Canada, 1917, c. 79) which provided for:

- (a) Change of name from Grain Growers' Grain Company Limited to United Grain Growers Limited. (s. 1.)
- (b) Increase in capital from two to five million dollars. (s. 3.)
- (c) The grouping of members into territorial units called locals, the election by such locals of delegates to attend general meetings of the company and the right of each of such delegates to one vote at a general meeting. (s. 6.)

"Since 1917 the shareholders of the company have been divided into locals, each of which elects a delegate to attend and vote at general meetings. Only delegates can vote at such meetings. To insure representation, the company pays the expense of delegates. At present there are 281 locals and 267 delegates attended the last annual meeting in November, 1944. The board of directors numbers twelve. At each annual meeting four directors are elected for a three-year term.

"In 1923 the Alberta Wheat Pool was formed and in the following year the Saskatchewan and Manitoba wheat Pools. In these organizations, membership and the rights and obligations of members were largely fixed by contract, under which the corporation acted as factor and agent for marketing the produce of members and was bound to account to them according to the terms of the contract. In each case the contract further provided that the pool could



obtain capital funds by deductions from the sale price of the produce for elevator and commercial reserves. (See Patton--'Grain Growers' Co-operation in Western Canada,' p. 244 et seq., and for the form of contract, p. 429.)

"In the following years a number of cooperatives were organized on similar lines, notably for the marketing of livestock and dairy products. At first each was organized on the basis of a marketing contract generally similar in terms to that used by the wheat pools, but adapted to the commodity handled.

"To facilitate the development of cooperatives seeking incorporation along such lines, legislation was enacted in each of the three prairie provinces. The Alberta Act (1924, c. 5) may be cited as an example. It provides:

1. That associations may be organized under either capital stock or membership basis.
2. That if upon a membership basis then the memorandum of association must state whether the interest of each member is to be the same as that of every other member, and if the interest of each member is not the same as that of other members then the memorandum of association must set out the way in which such interest is to be determined.

"The Manitoba Act (c. 36, R.S.M. 1940, s. 126) differs from the Alberta Act in that it declares that if the association is organized upon a membership basis the interest of each member must be the same as that of every other member.

"From evidence already submitted to your Commission you will be aware that a number of cooperatives have been organized under these Provincial Acts which have the following characteristics:



1. A small initial membership fee only.
2. Interest of members in assets on an equal or some other defined basis.
3. Capital provided in either of two ways:
  - (a) Loan capital basis - with or without interest, or
  - (b) By issuing deferred patronage dividend certificates, in lieu of cash on the revolving fund principle with or without interest.

"Evidence has been submitted to your Commission to show that while a few producers' cooperatives still retain the contract form of organization others have abandoned it and in such cases membership is now based on a small membership fee. A number of these have adopted the revolving fund method of providing capital, sometimes without payment of interest.

"Following the abandonment of the contractual basis of grain deliveries in 1930, the three pools adopted different forms of reorganization. In the case of one of these organizations, the Alberta Wheat Pool, its Act of Incorporation as amended from time to time still provides:

1. That membership is primarily based upon contributions to reserves.
2. That the interest of the members in assets of the pool shall be in proportion to their contributions thereto.

"The Act makes no provision for payment of interest on reserves and there is no statutory direction with respect to distribution of surplus.

"In actual practice, the three pools after 1930 ceased to pay interest on the very substantial amounts of capital contributed by their members. That fact has a





very important bearing on the application of the Income Tax Act to the Pool Elevator Companies and to this company, while the wide acceptance of the revolving fund method of providing capital without interest makes the problem more general in nature.

"A close comparison of the membership plan of organization with the share capital plan prevailing prior to 1920, and still widely prevailing, shows that the essential difference lies in:

1. The qualification of a member, which in some cases depends upon a very small or nominal fee, instead of upon some contribution to the resources of the organization.
2. The method of providing capital. The need for capital is small in the case of some organizations, but the cooperative elevator companies have all required it in large amounts, and to a total of well over thirty million dollars.

"Whatever the method of qualifying members, and whatever the method of obtaining capital, this company submits that such differences as exist do not warrant different treatment of different cooperatives for income tax purposes.

"With the advent of the world depression in 1929 the company was confronted with interrelated problems, which increased in importance year by year. In view of the very low prices prevailing for all farm products in the early thirties, farmers could not be persuaded to pay more than a nominal amount for membership privileges in any organization. At the same time, after the company had been in operation for a quarter of a century or more, it was inevitable that to an increasing extent, year by year,



many of the original members would die or retire from business.. This company, like all cooperatives, aims to identify as closely as possible its customers and its members. Under these existing conditions, the task of maintaining in the hands of farmers the shares of deceased or retiring members presented difficulties. That problem, and the need for some change in the company's charter to meet it, was recognized and discussed by the delegates in annual meeting as early as 1938.

"In the result the company obtained from parliament amendments to its charter (Statutes of Canada--1940-41, c. 40) by which existing shares of \$25 par value could be and subsequently by by-law were divided into two classes, viz.: Class 'A' shares of par value \$20 and Class 'B' shares of par value \$5. These classes were by the by-law respectively made subject to the following limitations and privileges:

"Class 'A' Shares--Par Value \$20:

- (a) Non-voting
- (b) Redeemable by purchase, or by call in whole or in part at \$24 per share.
- (c) Limitation of holding 250 shares
- (d) Annual dividend not exceeding 5 per cent in any year when earnings permit before payment of patronage or other dividend.

"Class 'B' Shares--Par value \$5:

- (a) Voting privileges to holders of this class only.
- (b) Ownership limited to farmers and the lessees or owners of farm land.
- (c) Ownership, limited to twenty-five shares
- (d) One man, one vote
- (e) Right to participate in patronage dividends





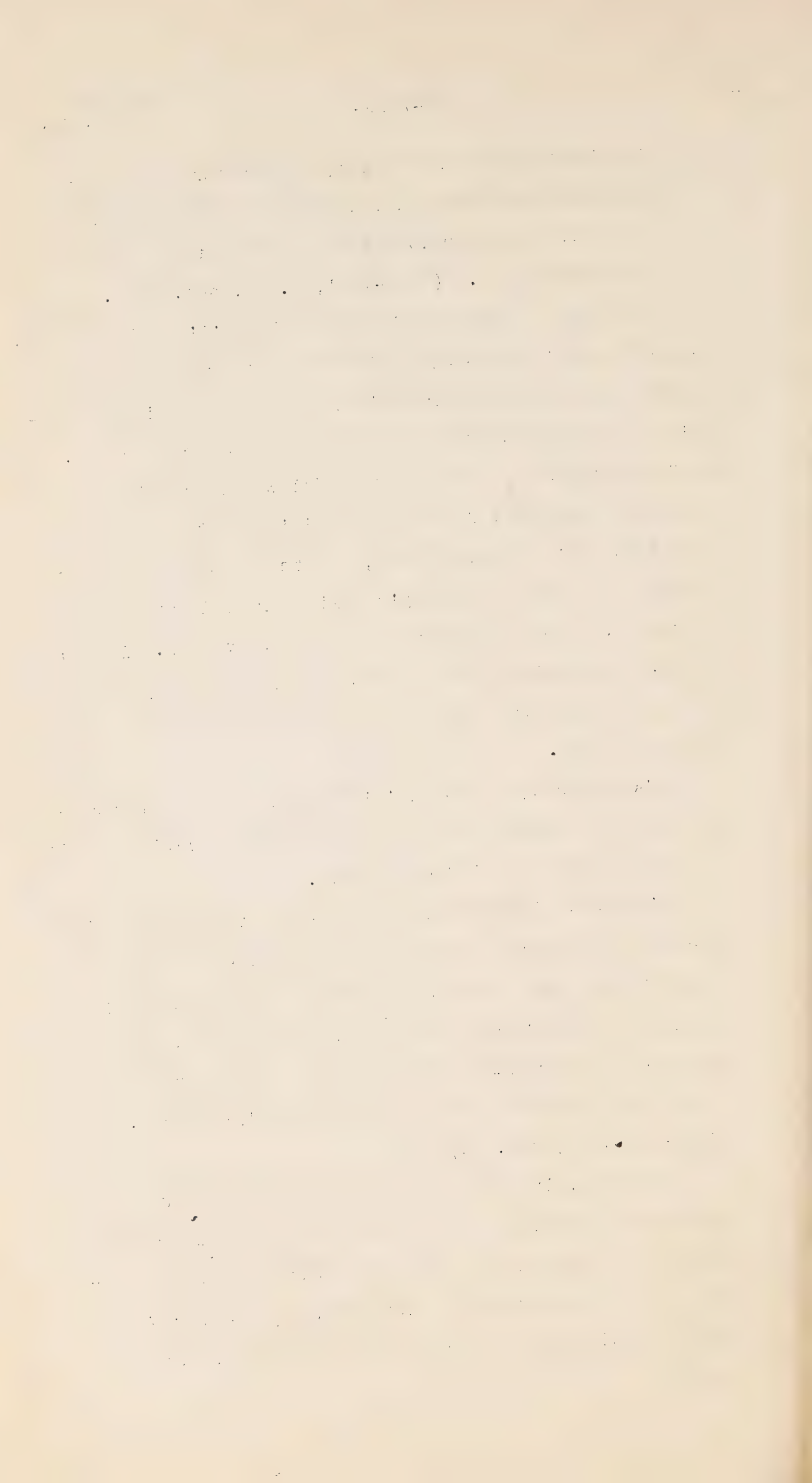
- (f) The right of the company to repurchase and re-sell these shares, but it may not at any one time hold more than 10 per cent of the total number outstanding. (1940-1941, c. 40, sec. 7(4).)

"The right to repurchase the Class 'B' voting shares, regarded by the company as important for identifying its customer and its member bodies, and in preserving its co-operative status, was not obtained without difficulty. Hansard records that while the bill was in committee of the house the leader of the opposition stated that the right was a most unusual one, but that after hearing the explanation of the company's solicitor as to the necessity for same, he would not object to the provision. As the company maintains a price of \$5 on these shares, members wishing to withdraw this part of their capital have been able to do so.

"As shown by appendix 'A' hereto, it is well recognized that a cooperative organized on share capital basis may have shares of different kinds.

"It is an indication of the extent to which parliament still protects the rights of shareholders that this amending bill only passed the Senate when the company accepted an amendment that no other dividends could be paid until the company had first paid to the extent earned the stipulated rate on the class 'A' shares. (1940-41 c. 40, sec. 2.)

"Finally, it should be noted that throughout the discussion during the two annual meetings of 1939 and 1940 it was made clear that the company proposed to resume payment of patronage dividends, authority for which had already been given the directors by by-law."



BY MR. STEER:

Q. May I direct attention to the second last paragraph. That paragraph indicates that parliament, before passing this amending act to your charter, insisted on putting in there a provision that dividends were to be paid on share capital before any patronage dividends should be paid. That is correct? A. Yes.

Q. As we are going to see as we proceed, and it appears clearly from a letter that is quoted on page twenty-six, the Income Tax Department has ruled that if the company does pay dividends on share capital it cannot get the exemption which is intended under section 4 (p).

A. That is right.

Q. And we are faced with that anomalous situation?

A. That is quite correct.

BY MR. ARNASON:

Q. Can class A shares be repurchased by the company?

A. They can be called at \$24.

BY MR. STEER:

Q. Not repurchased. I think that is clear. They can be redeemed at \$24 a share. A. There can be cancellation.

Q. B shares when repurchased may be re-issued?

A. They must be re-issued.

THE WITNESS: The brief continues:

"IV - The Company as a Cooperative

"In order to present clearly the company's position as a cooperative in relation to the Income War Tax Act, it is necessary to appraise its position in relation to other cooperatives, which in Canada have taken many forms. There is no set pattern and there is probably



no definition that all would accept. Two tests might be applied:

- (a) Does its form of organization conform to those plans which are generally accepted as cooperative?
- (b) Has it been accepted as a cooperative by those authorities who are recognized as qualified to judge?

"As to (a) it has been shown that in organization and structure the company conforms substantially to the principles of the Rochdale plan which was the foundation upon which the cooperative movement was built. Certainly it is an adaptation of that plan to conditions in western Canada in the first twenty years of this century as evidenced by dominion and provincial legislation passed during that time. Apart from the method of providing capital it is not fundamentally different from those conceptions of cooperative organization which have prevailed in western Canada since 1923.

"In this connection we refer you to certain definitions and descriptions of cooperatives within which this company's organization squarely comes:

"The official definition of a cooperative as used by the dominion government in 'farmers' cooperative business organizations,' 1938-39 (p. 2), and elsewhere in annual reports on cooperative organizations published by the Department of Agriculture:

'For the purpose of this record a farmers' co-operative business association is defined as a business organization owned or controlled by the farmer patrons, i.e., farmers who use its services, and operated in their interest.'

"From 'Co-operation, Its Problems and Possibilities,'





by A. Honora Enfield, Secretary International Co-operative Women's Guild, published by the Workers' Educational Association:

'In all these different forms of societies in which the cooperative principle has taken shape -- producers', consumers', credit and agricultural -- there is something in common. All are governed by the members themselves on the democratic principle of one man, one vote, regardless of the number of shares held. In all, the capital necessary for the enterprise is hired at a fixed rate of interest which is regarded as part of the running costs, and capital has no share of the profit or surplus as it is now more usually called.' (pp. 12 and 13.)

"From Co-operation, General Survey, by Elsie Gluck in Encyclopaedia of the Social Sciences, vol. 4, p. 360:

'In the minds of the leaders of most of these movements there was no necessary conflict between the various forms of cooperatives. So far as the internal organization of the associations themselves was concerned, the term cooperative had some basis in common practices: voting was on the principle of individual membership rather than of stock held; membership was open; dividends on capital were fixed or limited; occasionally share holdings were limited; provisions were made for the return of surplus to the members on the basis of patronage, a fraction of this surplus being retained usually in a common fund for the furtherance of the ends of the cooperative organization.'

"As to (b) the company fortunately has been the



subject of numerous examinations by competent observers, and their testimony is available in authoritative works.

"Dr. C. R. Fay, formerly a fellow of Christ's College, Cambridge, and later Professor of Economic History at the University of Toronto in his book, 'Co-operation at Home and Abroad' (1925) under the heading, 'The Prairie Provinces,' dealing in particular with Manitoba and Alberta, devotes six pages to the story of this company. The passage is quoted in appendix 'B'.

"Dr. H. S. Patton published in 1928 'Grain Growers' Co-operation in Western Canada.' A very large part of this book is taken up with the history and experience of this company, along with that of the Saskatchewan Co-operative Elevator Company Limited. The position of the Company as a cooperative is fully recognized.

"In 1932 Dr. D. A. MacGibbon, a member of the Board of Grain Commissioners for Canada, published 'The Canadian Grain Trade.' He devotes several pages, commencing at page forty-eight, to the early history of this company and clearly recognizes its cooperative status.

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"In 1924 Dr. W. A. Mackintosh published his 'Agricultural Co-operation in Western Canada.' On p. 103 he quotes with approval from Powell's 'Fundamental Principles of Co-operation in Agriculture,' the following definition of an agricultural cooperative:

'It is an association of farmers who unite in an effort to handle their common interest through an agency which is controlled by them on the principles of an industrial democracy, and exclusively for their benefit.'

"Dr. Mackintosh then goes on to say:

'Assuming the truth of the above comprehensive definition, it may be fairly argued that the farmers' grain companies of western Canada, although they exhibit many variations from normal types, are truly co-operative. It is just to say that the object of creation and operation has not been the making of profits for individuals. In so far as the object has been profits, it has been profits for expansion and organization rather than for individual appropriation. The limitation of the amount of holdings to twenty shares in the case of the Saskatchewan company and one hundred shares in the case of United Grain Growers; the replacement of proxy voting by the annual meeting of elected delegates and the rule of "one man, one vote" are all substantial safeguards against the danger of the companies falling under the control of non-producers or of a few producers with profits as their aim. The limitation on the amount of investment and of the dividend paid makes of less importance the rate of the dividend on stock.'

"Reference is also made to a study published in American Co-operation, 1927, Vol. 1, p. 26, by Chris. L. Christensen, Chief of the Co-operative Marketing Division of the Bureau of



Agricultural Economics, Department of Agriculture, at Washington. He makes an extensive survey of the company and favourably compares it with cooperative grain companies in the United States.

"Other works, the authors of which treat the company as a cooperative, are:

"'History of Farmers' Movements in Canada,' by Louis Aubrey Wood, pp. 311-314.

"'Principles and Practices of Co-operative Marketing,' by A.G. Mears and Matthew O. Tobriner at pp. 439 to 440.

"'Co-operation, Its Problems and Possibilities,' by Honora Enfield (Secretary of The International Co-operative Women's Guild), p. 62.

#### V The Company and Patronage Dividends

"Patronage dividends have an important relation to co-operative tax problems and for that reason some account of the company's experience in this respect is necessary. In the early years of its history it did not pay patronage dividends. As a young company seeking to develop and expand an enterprise which would be an efficient instrument in improving grain marketing conditions, it found itself confronted with many problems of an accounting and financial nature which, having regard to its main objective, caused its members and its directors to regard the payment of such dividends as of secondary importance, although at no time did the company abandon its determination to exercise its rights in this respect when conditions warranted such action.

"In examining the general literature on the subject of cooperation, you will perhaps have noted the great emphasis laid upon patronage dividends in connection with consumers' cooperation and the very limited reference to such dividends





in the treatment of agricultural cooperation. For example, the book on 'Agricultural Co-operation,' by H. W. Wolff, formerly president of the International Co-operative Alliance, mentions the word 'dividend' only once, when on p. 17 the author refers to 'dividend hunger' as the bane of certain cooperatives in Great Britain. He stresses instead the improvement in marketing conditions and in agriculture itself as the objects of the movement.

"Insistence on the right to pay such dividends led to the first crisis in the history of the company -- its expulsion from trading privileges on the Winnipeg Grain and Produce Exchange shortly after it commenced business in 1906, the story of which has been told by a number of writers. (See Mackintosh, p. 22 -- Patton, p. 50). That event was a serious blow to the company, which, at that time, was operating entirely as a commission agency. The government of Manitoba intervened in the dispute and as there appeared to be some doubt of the company's right to pay the dividends under its Manitoba charter, and as it was not strong financially, it agreed to forego its plans in this respect for a time.

"Both before and after the right in question was obtained from parliament, the interests of the company's members seemed to be much better served by other application of surplus revenues than their allocation to patronage dividends, since by 1912 the company was committed to the policy of acquiring and operating country elevators, to operate such a line a strong financial position was essential.

"One of the first steps taken by the company after the amalgamation of 1917 was to send a delegation to the United States to study agricultural cooperatives there and to report





upon the results of their experience with respect to patronage dividends. The delegation consisted of Mr. H. W. Wood, President of the United Farmers of Alberta; Mr. Peter Wright, a member of the board of directors of the Manitoba Grain Growers' Association and Mr. C. Rice-Jones, Vice-President of the company. The delegation found that dangers, difficulties and dissatisfaction had arisen from the payment of patronage dividends by grain cooperatives there. It found everywhere an appreciation of the development in western Canada and a feeling that it was much sounder than that in the United States. It also found that the payment of patronage dividends in the United States had a tendency to encourage locally owned elevators to buy on a very wide margin. The delegation recommended that the company should continue to work toward the payment of such dividends, but should take the greatest care in working out a plan of operation.

"Dr. Mackintosh, in his book at p. 90 et seq, examines the company's record, refers to the difficulty of arriving at a satisfactory basis for the distribution of patronage dividends in view of the way in which grain was handled through country elevators at that time and approves of the decision of the company to extend its services and to decrease margins, rather than to pay such dividends. He sums up his endorsement of the company's policy in this respect by saying at p. 98"

'To be effective and to survive, rather than to be unspotted but impotent in the pure orthodoxy of the co-operative gospel, would seem to have been the aim of the grain companies.'

"Again, on p. 148, he says:

'By thrusting forward through cooperation his business organization to the central market, the farmer is enabled to organize his productive enterprise according



to market results which he is in a position to distinguish and interpret. The immediate cause of co-operative enterprise may be and usually is abuse of power by selling or purchasing firms, but the results go far beyond the mere regulation of a trade, important as that is, and the benefits are not to be judged merely on the basis of quantitative efficiency, of getting the largest turnover with the smallest cost, but upon the effect of cooperation in relating the producer to his market.'

"Dr. Patton at p. 194 endorses the company's position in those years in the following words:

'The rebate to patrons of earnings in excess of a fixed maximum return on share capital was realized to be incompatible with the financing of additional facilities and extended services through the reinvestment of earnings. Minute individual patronage disbursements -- even if a satisfactory method of distribution could be worked out -- were felt to be of less advantage to grain growers as a whole than the enlargement of the resources and serviceableness of the farmer's companies.'

"By 1924 it was possible to envisage payment of patronage dividends on grain purchased by the company on delivery at country elevators, and a resolution authorizing that procedure was passed. Commencing in August, 1925, and continuing for four years the company issued dividend certificates on the purchase of such grain. Those issued for the crop years, 1925-26, 1926-27 and 1927-28 were later redeemed at the rate of one cent per bushel. Those issued during the crop year, 1928-29 were not redeemed because of the disturbed conditions of the grain market in the fall of 1929. With the beginning





of the crop year, 1929-30, the company faced ten years of world depression, and it requires only a glance at the table presented on p. 24 hereof to show how impossible it would have been for the company to pay patronage dividends during that period. In four of the years the company operated at a loss, and in three did not make any payment of dividend on share capital. It was not until the fiscal year 1940-41 that patronage dividends again seemed practicable. For that year \$200,000 was appropriated and paid out at the rate of one-half cent per bushel on all grain handled by the company. In the following years, as shown by the table, it appropriated a total of \$2,000,000 to patronage dividends, giving rise to a tax problem which is discussed later.

#### VI - The Company in Relation to Income Tax

This company has paid income tax since the inception of the Income War Tax Act, and has paid in all a much larger sum than any other cooperative. When the Income War Tax Act was passed, in 1917, the company, as one of the large farmer-controlled cooperatives doing business at that time, did not seek exemption nor make any effort to escape liability. The reason for this is not difficult to understand. It was a member of the Canadian Council of Agriculture, which prior to the enactment of the Income War Tax Act, was one of the first advocates of both personal and corporation income tax. (See the Farmers' Platform of 1916, quoted by Hopkins Moorhouse, 'Deep Furrows,' p. 293). Any other attitude taken by the company would have been inconsistent with its position as a member of the Council and with the support given to the Farmers' Platform by the company's publication. Moreover, the rate of income tax was not high at that time and the amount of the tax was not a matter of concern.



"The Income War Tax Act was amended in 1930 by the insertion of Section 4(p). The company took no part in seeking that amendment. It is significant that it was passed at a time when the contract pool plan was at its peak in Canada. The collapse in grain prices which led to the discontinuance of that plan by the wheat pools had only just begun. Moreover, a reading of the amendment and the fact that the section seems obviously to have been taken from a similar section in the Internal Revenue Code of the United States (See Hulbert -- 'Legal Phases of Co-operative Associations,' p. 250), would seem to indicate that it was designed particularly to meet that form of cooperative which was obligated by contract to distribute its surplus earnings among its members. In any event, the company assumed when the Act was amended by the insertion of Section 4(p) that it was not qualified to seek exemption thereunder.

"For a few years after the amendment, income taxation continued to be a matter of comparatively small importance to the company. With the fall in prices commencing in the autumn of 1929 and continuing for some years thereafter, and with increasing areas in western Canada afflicted with drought, actual survival was to be a problem for many organizations. The increasing rates of taxation from 1935 onward, presented however, a problem of increasing gravity, especially as other cooperatives in the grain trade, meeting this company at many points, appeared to enjoy tax exemption and at least one had started to pay patronage dividends.

"The table on the following page sets out the extent to which the company has been and may be affected by the Income War Tax Act and the Excess Profits Tax Act from the fiscal year ending July 31, 1929, to that ending July 31, 1944. With





respect to the last five years the taxes are estimated only, as assessments have not been completed. The table commences with the year 1929 as that was the first fiscal year in which the accounts of the company were presented in a consolidated form."

BY R. STEER:

Q. Mr. Law, I should like to ask you one question in regard to this table. If you will refer to the years 1940 to 1944 inclusive, it is obvious from the table that those were years of substantial profits? A. Yes.

Q. And would you give the Commission your opinion as to the extent to which those large profits were due to war conditions? A. Those profits, of course, arose from satisfactory handlings, but to a very large extent through the fact that our elevators and annexes were full of grain; and that, I think, we consider in a very great measure is a war condition.

Q. May I call the attention of the Commission to what the table discloses. If you will look at column 3 you will observe that for three years, namely 1930, 1937 and 1938, there were very substantial losses. For the year 1933 there was a minor loss, and in the year 1936 there was practically no profit. The business was described the other day as a "prince and pauper" business, and I suggest that if this total net taxable income be examined, that description will be found to be quite adequate.

Then may I call your attention to a comparison between the years 1929 and 1941, bearing on the question of the increasing amounts of tax. In those two years the amount of profit was practically the same. The amount of tax in 1941 was practically five times as large as it was in 1929.





Then may I call your attention to footnote No.5, because it is our contention that we have a particular problem with respect to the dividends on share capital. This footnote bears on that question. It reads:

"5. Had it been possible to charge cash dividends paid to shareholders as a deductible expense for tax purposes, it is calculated that income and excess profits taxes as paid or estimated would be reduced by \$436,000.00 for the period of 16 years."

THE WITNESS:



Table  
United Grain Growers Limited  
and Subsidiary Companies

Consolidated Statement of Taxable  
Income and Taxes as paid and estimated

Years 1929 to 1944, inclusive.

Fin- ancial Year Ended July 31	Bushels Received at Country Elevators (in thou- sands)	Net Taxable Income (1)	Dominion Income and Excess Profits Taxes Paid and Accrued (2)	Patronage Dividends Charged as ex- pense in arriving at Net Taxable Income (3)	Dominion Income and Ex- cess Prof- its Taxes Payable if Patron- age Divi- dends dis- allowed as Expense (4)
1929	36,952	\$ 494,281	\$ 39,382	...	\$ 39,382
1930	17,891	(617,946)	...	...	...
1931	29,095	225,159	25,842	...	25,842
1932	28,739	248,513	33,549	...	33,549
1933	33,516	(31,145)	...	...	...
1934	22,519	226,312	33,946	...	33,946
1935	22,901	187,080	31,857	...	31,857
1936	19,664	8,993	488	...	488
1937	17,706	(544,359)	...	...	...
1938	19,719	(398,959)	2,175	...	2,175
1939	30,480	24,311	4,862	...	4,862
1940	37,081	627,354	183,579	...	183,579
1941	41,058	489,057	185,026	200,000	288,774
1942	25,579	346,779	145,644	375,000	319,677
1943	39,975	464,635	195,146	400,000	494,961
1944	48,673	503,610	<u>211,516</u>	1,225,000	<u>1,177,416</u>
			<u>\$1,093,012</u> (5)		<u>\$2,636,508</u>

1. In 1930 no depreciation on country elevators and terminals was provided as appropriations in this respect for previous years had been made in excess of requirements.





In 1937 and 1938 no depreciation was provided on such buildings, but net taxable income has been adjusted by one half normal depreciation, in accordance with current income tax regulations.

2. Taxes for 1940, 1941, 1942, 1943 and 1944 are estimated. Assessments for these years have not yet been made by the Income Tax Department.
3. Amount of patronage dividend shown for 1941 was paid. Amounts for 1942, 1943 and 1944 are held in reserve, as the result of uncertainty of tax liability thereon, to be referred to later.
4. After deducting refundable portion of the excess profits tax for 1942, 1943 and 1944.
5. Had it been possible to charge cash dividends paid to shareholders as a deductible expense for tax purposes, it is calculated that income and excess profits taxes as paid or estimated would be reduced by \$436,000.00 for the period of 16 years.

- - -

"The table shows very clearly the fluctuating nature of the income of companies engaged in the operation of country and terminal elevators and how seriously changing conditions may affect operating results in any year. There are few more hazardous or uncertain businesses. Operating results from year to year depend directly upon weather and crop conditions, not only in Canada, but in other wheat-producing countries of the world. Again the variable nature of crop conditions intensifies the competitive nature of the business. Under conditions which have prevailed during the past five years, the elevator capacity of western Canada has been strained to the utmost, and, in fact, many temporary annexes have been built.



Previously, however, when crops were light, as they were during a series of years from 1930 on, it appeared that the elevator capacity in western Canada was altogether excessive and extreme competition resulted among operating companies.

"The table indicates the position of the company under the Excess Profits Tax Act. The standard years of 1936, 1937, 1938 and 1939 were years of low earnings and an application was, therefore, made to the board of referees for the determination of standard profits. Evidence submitted before the board showed that during the period from the fiscal year ending 31st July, 1929, to that ending 31st July, 1939, the earnings of the company after payment of income tax, averaged slightly less than two per cent per year on the capital employed. During that ten-year period the statement shows heavy losses in 1930, 1937 and 1938, and only very low earnings in other years. Ordinarily, it would have been expected that those losses would have been recouped in the years following 1939. The table makes it clear, however, that with the high rates of taxation now prevailing under the Income War Tax Act and the Excess Profits Tax Act, the company, after paying taxes and the moderate rate of five per cent on its share capital, has very little left to make up the losses of the previous years. The position of the company in active competition with other cooperatives claiming, and for a long period accorded, tax exemption is, therefore, more serious.

"This company has country elevators in the three provinces of Manitoba, Saskatchewan and Alberta, and the following table shows the number of points where it is in competition with one of the three pool elevator companies:





	No. of Points at Which U.G.G. Operates Elevators	No. of Points Where there is Competition between Pool and U.G.G.
Manitoba	110	52
Saskatchewan	108	100
Alberta	281	193"

I should like to draw attention, Mr. Chairman, to the reconciliation needed here. The total of the points is 499, whereas on page 4 of the brief we refer to 529 elevators. The reconciliation is that we have 27 duplicates, and 3 elevators in British Columbia which are not included in the list. If you add 30 elevators to 499 elevators, it reconciles with the previous statement.

"Some years ago the company came to the conclusion that the unequal tax situation existing between its principal competitors and itself would ultimately have a disastrous effect upon its business and that it must seek equality of treatment. Some informal representations made to the Commissioner of Income Tax were followed in June, 1941, by a formal submission. The government had announced on May 15, 1941, that the tax status of the Pool Elevator Companies was the subject of study. This company, in its submission, asked that its status be included in that study to determine whether in any material respect it was distinguishable from those competing companies. The submission asserted that if existing legislation was to be interpreted so as to give competing organizations exemption from taxation, this company was in duty bound to seek equality by claiming similar relief.

"Again it will be noted from the table that following the reorganization of the company under the amending Act of





1941 and the assurances given its members in the discussion of the reorganization plan at the annual meetings of 1939 and 1940 of its intention to pay patronage dividends, the company, on February 15, 1942, paid out the sum of \$200,000 on that account for the fiscal year ending July 31, 1941, calculated on the basis of one-half cent per bushel. In making this payment the company had reason to believe that the amount would be tax exempt, and had assurance to that effect in a letter from the Inspector of Income Tax at Winnipeg, dated November 7, 1941, which contains the following:

'A corporation which makes distribution of its earnings to shareholders on the basis of capital invested cannot fall within the provisions of Section 4(p), and, hence, is subject to tax as an ordinary corporation. However, to the extent that such corporation makes returns to its customers or members on the basis of business done with the corporation, then to this extent it has made no profit, as it is dealing with the commodities in question at cost only, and any so-called earnings are really not income at all.'

"Later, however, some concern was apparently felt in the office of the Commissioner of Income Tax over the payment of patronage dividends by this and other grain handling organizations, for the company received a letter from the Commissioner dated February 19, 1943, --"

a year after the \$200,000 had been paid out --

"-- to the effect that upon the basis of an opinion received from the Department of Justice, any payments of this kind would not be allowed as a deductible expense. We understand that similar letters were received by other grain-handling



companies. We do not know whether a similar letter was directed to any of the three wheat pools. We do know that this company could not accept that ruling in justice to its position as a cooperative authorized by parliament to distribute its earnings in that way or to its position as a competitor of three cooperative organizations which continued to make such payments. Accordingly for the years 1942, 1943 and 1944 the sums of \$375,000, \$400,000 and \$1,225,000 were set aside for patronage dividends, and the company's members and customers were notified that these sums had been so set aside and allocated pending the decision of the courts. They were also notified that if the company should be found liable to taxation in connection therewith, the greater part of the amount in question would be absorbed in taxes. The fact that patronage dividends were not being paid by this company, while its competitors, either free from, or disregarding income tax liability, continued to make such payments, has occasioned loss of goodwill. Were a similar condition to continue for any length of time, after the present congestion of elevator space is lessened, the company could not hope to maintain its business.

"Finally, the attention of the Commission is called to the position of the company, as shown by the table for the years 1940 to 1944, inclusive. It will be observed that the company will pay an amount of \$920,911 in income and excess profits taxes for those five years. If it happens that the amounts paid or allocated for patronage dividends are not allowed as deductible then the total amount will be increased to \$2,464,407. That is the measure in dollars of the burden of income taxation upon this company in five years. If the amount of taxation in the last four years is related to the





bushelage handled then it appears that the company will pay almost one-half cent per bushel with the possibility of paying nearly one and a half cents per bushel over those years if patronage dividends are not allowed. In the year 1944 taxation on this latter basis would amount to nearly two and a half cents per bushel. By contrast the rate per bushel in 1929 was just over one-tenth of a cent per bushel. To that extent has taxation increased. In addition it has required during those years an average of one-half cent per bushel to enable the company to pay a five per cent dividend on share capital. A patronage dividend of one-half cent per bushel is a very desirable one at any time. It is obvious then the handicap which this company suffers as against competitors which pay no interest on capital and may be relieved from any income tax liability.

#### VII - Some General Considerations

"In the foregoing pages we have described the business, the organization and the tax position of this company, and have shown that it cannot survive under continued tax discrimination. In this section we desire to offer some general comments on the existing legislation.

"If, as seems to have been the opinion of parliament in 1930, it was desirable that cooperative organizations should be exempt from income tax, then it would appear that Section 4(p) has not only failed to accomplish that end, but has led to unjustifiable discrimination in the treatment of companies and associations equally cooperative in their form of organization and in their objectives and even between cooperatives carrying on the same kind of business in the same way. That other cooperatives hold the same views, was shown by the submission made by a delegation representing cooperatives across



Canada, which waited upon members of the dominion government on July 12, 1944, and probably the acceptance of that opinion was one of the reasons for issuing your Commission.

"In three respects particularly the section, as it has been interpreted, results in discrimination as between corporations all essentially cooperative in nature:

1. With respect to the payment of dividends by co-operatives organized on a share capital basis.
2. With respect to the percentage of business which is permitted to be done with non-members, and
3. With respect to the nature of the obligation referred to in the section.

"Dealing with the first point, the letter of November 7, 1941, quoted on p. 26 hereof, makes it clear that the Income Tax Department has ruled that if a cooperative pays dividends on share capital, it cannot come under the provisions of Section 4(p). You have heard evidence that other cooperatives have understood that to be the department's ruling.

"Assuming the ruling of the department to be correct, this section is inequitable as between different methods of raising capital requirements and has encouraged the adoption of a variety of plans to provide such capital either in such form as to make interest a properly deductible expense or without any liability for interest whatsoever. We refer to the raising of capital in the shape of loan capital and the withholding of cash represented by deferred payment, certificates without interest. We do not believe that the prevailing practice among many cooperatives in western Canada, of not paying interest on loan capital --"

I should like to make a correction here, by striking out the next few words, "or of retaining cash represented by





deferred certificates --" and substituting the words, "or on capital otherwise obtained."

Perhaps I had better read the sentence over again. It will read in this form:

"We do not believe that the prevailing practice among many cooperatives in western Canada, of not paying interest on loan capital or on capital otherwise obtained, arises solely from any widespread objection to the payment or receipt of interest as such. It appears to be based on the desire to come within Section 4(p). We believe the practice encourages a hasty expansion of business and the development of business without suitable reserves, which in less prosperous times might again result in the disappearance of a great many cooperatives such as has occurred before. We believe that the recognition of the right of a cooperative to have interest or dividends on capital regarded as deductible would discourage the extreme use of the other methods of financing above mentioned.

"Our contention is that there should be no difference for taxation purposes between cooperatives organized on a share capital or on a loan basis. We submit that a cooperative is entitled to have reasonable dividends on share capital regarded as an expense in the same way as one organized on a loan capital basis is entitled to have interest on its loan capital so regarded.

"Moreover, we believe that to the extent that the fear of tax liability does encourage the use of non-interest bearing capital, to that extent it increases the discrimination against a cooperative that is legally or morally bound to pay dividends on capital, especially having regard to the present high levels of income tax. To pay a 5 per cent dividend on





this company's capital of \$3,200,000 requires approximately \$160,000. To pay this dividend and take care of income tax an amount of over \$275,000 is required. Another cooperative with the same capital might pay no interest and, therefore, no income tax. The advantage which that difference presents in confronting questions of handling and storage charges or in paying patronage dividends is obvious.

"Again it is pointed out that the refusal to allow dividends paid on share capital as an expense makes it impossible for certain cooperatives to take advantage of the exempting section though they are incorporated as cooperatives under legislation passed by provincial legislatures. It has been seen that both the Co-operative Associations Act of Alberta and the charter of this company require the payment of dividends on capital stock as a prerequisite to the payment of patronage dividends, so that it is clearly impossible for certain cooperative corporations both to comply with the law of their being and obtain exemption under Section 4(p).

"It has been difficult for this company to understand why a Canadian taxation law should be so framed and interpreted that cooperative organizations following closely the Rochdale plan of share capital organization should be subject to taxation if they pay interest on that capital while those following a later pattern of organization, introduced into Canada from the United States, should be permitted a preferred position, even if that pattern is in form well adapted to escaping income tax.

"We further suggest that any exempting clause which has led to such a wide variety of plans to escape assessment, as now prevails in Canada, is bad legislation. Capital funds are essential to any business, or industry. It surely is not



the intent of the parliament of Canada to discourage a reasonable reward being paid for such capital. It is suggested that any exempting section should clearly show that a reasonable rate of dividend, say, five per cent, should be permitted as part of the operating expense of any cooperative whether it takes the form of loan capital or share capital.

"As to the second point, the proviso to Section 4(p), which limits the percentage of business with non-members to twenty per cent of the value of business with members is too strict a limitation. Under the American Act business with non-members to the extent of fifty per cent is permitted.

"It is unfair, unjust and inequitable as between organizations equally cooperative in form and method of doing business. One cooperative in a particular line of business may find it comparatively easy to keep its non-member business within the prescribed limits and thus enjoys complete exemption; another by reason of the nature of its business, the necessity of doing business with everyone who wishes to do business with it, or the necessity of doing a considerable amount of casual business, may exceed the twenty per cent limit of non-member business and suffer the penalty of being completely taxable. That limitation, resulting as it does in discrimination between organizations equally cooperative, is too severe.

"It leads to extreme measures to keep the appearance of member business within the prescribed limits. Your Commission has met examples of such methods, such as an extremely low membership fee, in many cases \$1.00, and in some cases even less, and the deduction of such nominal membership fees from patronage dividends, so that in effect the member makes no real contribution, but finds the membership fee paid by a very





slight deduction from earnings on his business. We do not suggest that there is anything improper in these methods, but do suggest that legislation is unfair and inequitable which makes it possible for organizations adopting such plans to be completely exempt, while other organizations of exactly the same type whose members have made some real contribution to the organization of the cooperative are taxable.

"This proviso has been particularly difficult to comply with during the past five years in the elevator business. The operators of public country elevators are required, both under the Canada Grain Act and by their contracts with The Canadian Wheat Board, to take grain from any producer as offered, whether or not he is a member of the cooperative. Under conditions of elevator congestion and regulation of deliveries under quotas set by The Canadian Wheat Board, farmers have gone to other than their accustomed elevators. In addition, there have been the usual changes in customers, as the result of choice, of changes in occupancy of farms and of the death or retirement of members. For reasons quite beyond its control, it has been difficult if not impossible, without considering new memberships to have been retroactive, for any cooperative elevator company to keep its non-member business within the limits of this section. Prevented during a period of years, by the tax situation, from paying out patronage dividends and thus bringing in new members, this company has not been able to meet such requirements.

"One suggestion which has been put forward to meet such difficulties is to recognize as tax-exempt, earnings derived from business with members, and as subject to taxation earnings derived from business with non-members. However such a formula might work elsewhere, it is quite impracticable in



the elevator business to make such a distinction as to sources of revenue. Moreover, it would involve problems difficult of solution with respect to revenues derived from The Canadian Wheat Board as well as from exporters who may elect to keep in storage grain bought and stored in the elevators of a cooperative elevator company.

"A sounder plan would be frankly to recognize the situation, and to permit a larger percentage of business to originate with non-members.

"Referring now to the third point, the meaning of the word 'obligation' as used in the section is not clear. It is difficult to know whether the reference is to a contractual obligation, express or implied, a statutory or a moral obligation.

"The use of the word 'obligation' is another reason for believing that Section 4(p) was drawn with the contract pool form of organization in mind. Under that form of organization, now discontinued in the grain business, there was an obligation enforceable by law under the terms of the contract. Members of organizations now operating elevators cannot demand an accounting through appropriate court action. In a practical sense the use of the word implies the right of members to enforce an accounting. Your observations of co-operatives already before you will have shown very few in which the member is given, or has that right. In the majority of cases there is no more than a declaration of intent, the fulfilment of which, in whole or in part, rests with the directors or the annual meeting of members. Reference to obligation might reasonably be eliminated from any exempting section of the act.





MR. STEER: Before proceeding further with the brief, Mr. Law, may I point out that there seems to be some misunderstanding in respect to the reply to Mr. Arnason's question, based upon page 14 of the brief with regard to the redemption of shares. Subsection (b) under class (a) shares, as I read it, means that those shares can be purchased in the market, or they can be called; and in either case, whether purchased in the market or called, they are redeemed and not reissued.

MR. ARNASON: It was with regard to the latter point that I asked my question.

MR. STEER: There is no provision for reissuing.

THE WITNESS: The brief continues, under the heading "Conclusions", as follows:

"The first principle of a sound taxation system is equality of treatment. In the preceding pages we have shown that section 4(p) does not apply impartially to cooperatives, and that it has led to extreme and unusual forms of cooperative organization in efforts to insure exemption.

"In particular we have shown that this company is farmer-owned and controlled with a membership of some 35,000 prairie farmers; that in its origin it was a direct out-growth of the farmer movement in western Canada and still occupies a prominent place in that movement; that it is democratically controlled with those limitations of voting rights and capital holding common to cooperatives; that it handles farmers' grain from the driveway of the country elevator to the cargo vessel at lakehead or Vancouver in exactly the same way as any competitor; that surplus earnings have not been used to pay large dividends on capital but for greater and more extended services to its members; that only in its method





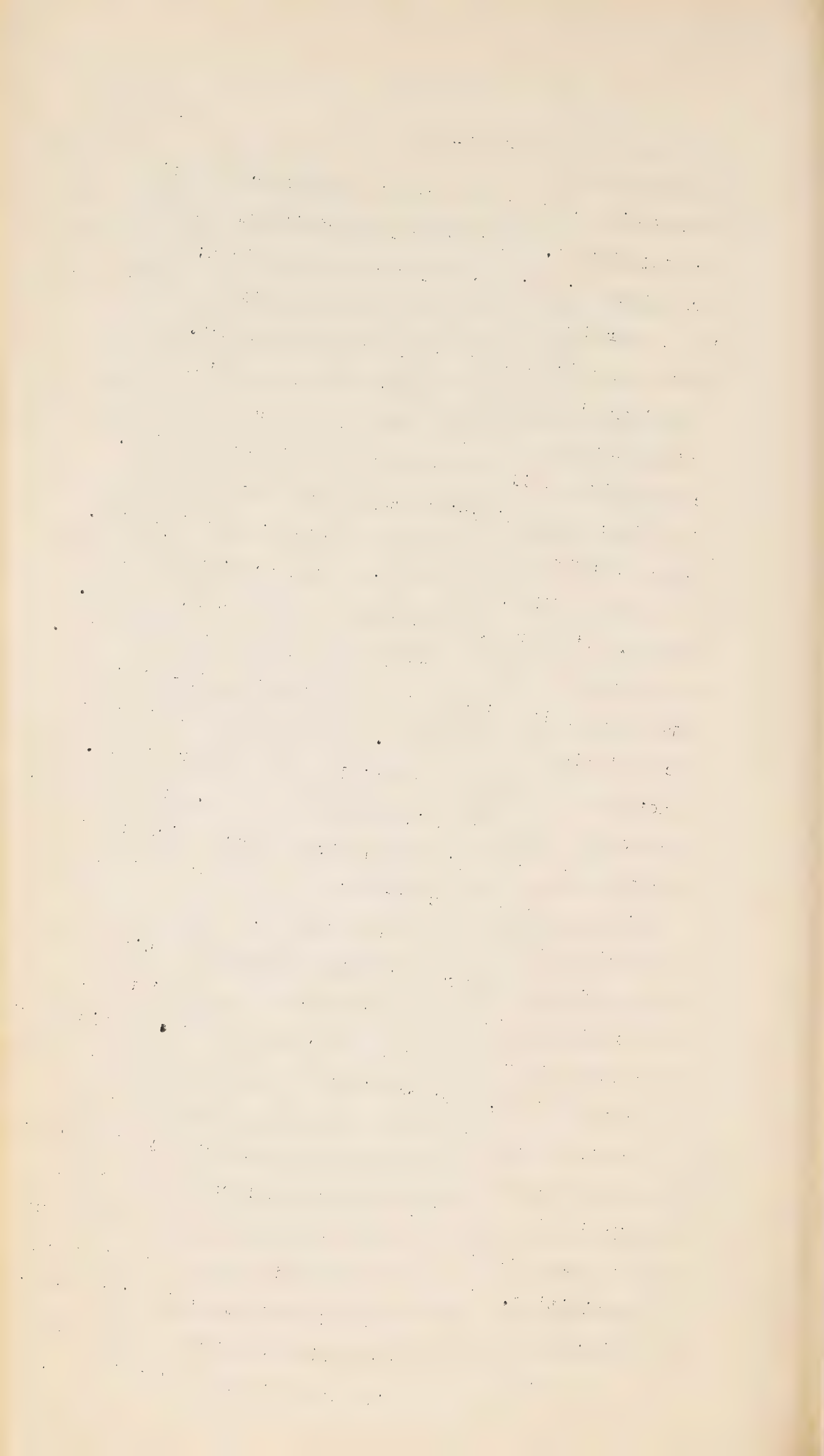
of providing capital does it differ from cooperatives more recently formed, and in that respect it follows the British form of organization rather than the American; and that it is empowered to pay patronage dividends by the parliament of Canada which passed the Income War Tax Act.

"For these reasons the company has insisted and still insists that any legislation which exempts competing cooperatives while still subjecting it to taxation, is inequitable and discriminatory and is not soundly conceived for the purposes for which it was intended.

"The company has been in existence for nearly forty years. It started in 1906 in a small and humble way. It has prospered and grown to a very considerable size. Throughout its history it has met privately-owned competition on even terms. It has never sought and does not now seek any preferential treatment for itself. It has faith in the cooperative way of business. It believes that cooperation is a vital and living force which under proper guidance can continue to exist and flourish without any special advantage over competitors.

"In endeavouring to find a fair and equitable basis for the application of the Income War Tax Act with respect to cooperatives and companies in competition with cooperatives, your commission will probably meet more difficulty in appraising the position of those engaged in the elevator business than of those in any other business. It is the only field in which all operators are subject to full and complete governmental regulations as public utilities. High capital investment is necessary and the income of operators from year to year is highly variable.

"The impact of taxation under the Income War Tax Act and the Excess Profits Tax Act is greater in a business



where the income fluctuates greatly as between one year and another, or between one period and another, in contrast with a business where income is more regular from year to year. A company subject to taxation on the present scale has practically no opportunity, during years of high and unexpected earnings such as have recently been experienced, to recover losses made in earlier years, to accumulate reserves against future periods of low earnings, or to provide for expansion or improvements in facilities. A tax-paying company is consequently placed in a position of extreme disadvantage as compared with a competitor which is not paying taxes.

BY MR. STEER:

Q. Do you have any computation made as to the greatest amount of money which your company is able to retain from its income on the present basis of taxation? A. Yes, we have. The maximum amount we can retain, after payment of these taxes is \$297,000, plus whatever amount is recoverable under rebate -- twenty per cent rebate on taxes paid under the Excess Profits Tax Act.

THE WITNESS: The brief continues:

"A reference to the table on page 24 shows also that the position has been very much aggravated by the Excess Profits Tax Act. For the years 1941 to 1944, inclusive, if the amounts set aside by the Company for patronage dividends are not allowed as exempt, taxes payable by the company will be increased for the four years by an estimated \$1,543,000. Taxes would then amount to one and a half cents per bushel on the gross handling of the company in those years. To the extent that the earnings of the company for those years was due to war conditions, every company, cooperative or otherwise, has





been benefited by those conditions; to the extent that the earnings were the result of unusual crop conditions only, all the companies benefited in the same way. We repeat there has been no substantial difference in operating methods. It is to be expected, of course, that the Excess Profits Tax Act is a wartime Act only and that taxpayers may look forward with some hope of an early repeal or at least some modification thereof. The repeal of that act would go far towards ameliorating competitive conditions in the future. But unless the discriminatory application of the act in the past few years is also removed, the effect will be disastrous against those bearing the burden of the tax.

"The company considers tax discrimination in this field to hold dangerous possibilities, not for the non-cooperative companies, which can speak for themselves, but for the whole farming community. Such dangers are not confined to producing inferior service or lower returns to one group of farmers as compared to another group. They include the possibility of competitive conditions which might impair the stability or solvency of organizations giving necessary service to western farmers, both cooperative and non-cooperative, the disappearance or bankruptcy of any of which as the result of the tax situation or conditions resulting therefrom, would have widespread and serious consequences. Continued tax discrimination will further impair the ability of the Board of Grain Commissioners to exercise impartially its duties of regulation, and the ability of The Canadian Wheat Board to make uniform arrangements with its agents.

"The Board of Directors of this Company considers the British method of dealing with taxation of corporations, both cooperative and otherwise, as superior to the



method which has been followed in Canada. Adoption of the British system would largely solve the problem before you. If a recommendation to that effect goes beyond the powers of your commission, we trust you will find in order a recommendation to the effect that the possibilities of following the British precedent should be carefully studied in Canada.

"In Great Britain a problem similar to that which you are considering was solved by treating as deductible expenses for income tax purposes, all patronage dividends and payments analagous thereto whether paid by a cooperative or an ordinary corporation, and in all other respects subjecting cooperatives to the same taxation as imposed upon other companies. That measure was possible there because both cooperatives and other corporations were already relieved of taxes in respect of dividends paid on capital stock, while in addition all cooperatives in Great Britain had been organized on the capital stock basis. A satisfactory solution in Canada will not be practicable by adopting the British system with respect to patronage dividends and payments analagous thereto unless at the same time there is dealt with the problem of dividends on capital stock paid by a cooperative. The exemption of patronage dividends only would continue to be discriminatory against all those cooperatives organized on the Rochdale plan with share capital, and such discrimination would be particularly onerous with respect to this company. With only patronage dividends exempt and taxation imposed on dividends on share capital then this company estimates that the amount required to pay such dividends and income tax as would be then assessable, would amount in some years to roughly one cent per bushel on the

The first part of the paper is devoted to a general discussion of the problem. It is shown that the problem is of great importance in the theory of the differential equations of the second order. The second part of the paper is devoted to the study of the properties of the solutions of the differential equations of the second order. It is shown that the solutions of the differential equations of the second order are of great importance in the theory of the differential equations of the second order. The third part of the paper is devoted to the study of the properties of the solutions of the differential equations of the second order. It is shown that the solutions of the differential equations of the second order are of great importance in the theory of the differential equations of the second order. The fourth part of the paper is devoted to the study of the properties of the solutions of the differential equations of the second order. It is shown that the solutions of the differential equations of the second order are of great importance in the theory of the differential equations of the second order. The fifth part of the paper is devoted to the study of the properties of the solutions of the differential equations of the second order. It is shown that the solutions of the differential equations of the second order are of great importance in the theory of the differential equations of the second order. The sixth part of the paper is devoted to the study of the properties of the solutions of the differential equations of the second order. It is shown that the solutions of the differential equations of the second order are of great importance in the theory of the differential equations of the second order. The seventh part of the paper is devoted to the study of the properties of the solutions of the differential equations of the second order. It is shown that the solutions of the differential equations of the second order are of great importance in the theory of the differential equations of the second order. The eighth part of the paper is devoted to the study of the properties of the solutions of the differential equations of the second order. It is shown that the solutions of the differential equations of the second order are of great importance in the theory of the differential equations of the second order. The ninth part of the paper is devoted to the study of the properties of the solutions of the differential equations of the second order. It is shown that the solutions of the differential equations of the second order are of great importance in the theory of the differential equations of the second order. The tenth part of the paper is devoted to the study of the properties of the solutions of the differential equations of the second order. It is shown that the solutions of the differential equations of the second order are of great importance in the theory of the differential equations of the second order.



company's handling. Other cooperative elevator companies competing with this company and not paying interest on their capital would be able to pay higher patronage dividends than could be paid by this company, and their continuing ability to do so even to the extent of one-half cent per bushel would have a disastrous effect on the company's business just as soon as the present pressure on elevator space is lessened. If for example certain corporations may have without taxation all the advantages of their proportionately high earnings for those years, the benefit is permanent and far-reaching either in the goodwill created by the payment of dividends or the strong cash position that may be established by withholding cash and issuing deferred payment certificates. The latter procedure also enables such companies to recover more quickly from losses sustained in previous years when operating results were unfavourable.

"The company is convinced that you will not find a solution of the problem simply by eliminating section 4(p) and attempting to tax the income of all cooperatives for the following reasons:

"(a) Such a change would be widely resented and it is questionable whether it would have the necessary degree of public support to make such a proposal practicable in parliament.

"(b) Cooperatives doing business on a contractual basis are probably exempt, as having little or no income, apart entirely from any exempting clause in the Income War Tax Act. Unless the government went so far as to specifically provide for the taxation of cooperatives organized on that basis there would probably be a revival of the contractual agency basis of operation in one form





or another.

"(c) It is probably a matter of doubt as to whether bona fide patronage dividends are subject to taxation quite apart from any exempting clause, and it is highly desirable that for the future the law should be clear and certain in this respect.

"(d) Cooperatives whose capital has been provided on a loan basis are presumably tax exempt with respect to interest paid thereon.'

"For the foregoing reasons this company believes that a solution will be found in a modification of the British method along lines somewhat as follows:

A: As to Cooperatives:

"(1) By recognizing as a deductible expense for the calculation of income tax, patronage dividends paid by any cooperative authorized to make such payments by the legislation under which it is incorporated.

"(2) By recognizing as a deductible expense for the calculation of income tax, dividends up to five per cent paid by a cooperative organized on a capital stock basis.

"(3) If a limitation with respect to non-member business is considered necessary, by permitting such business to a higher percentage than is provided at present in section 4(p).

B: As to Other Corporations in Direct and Close Competition with Cooperatives:

"Pending such time as the government can see its way clear to adopt the British system to grant relief to such companies as follows:

(1) By recognizing payments analagous to patronage dividends as expenditures necessary to obtain and preserve business.

(2) To allow as a deductible expense for the



calculation of Income tax, dividends actually paid on capital employed, not to exceed five per cent.

"(3) Such other relief as may be necessary to companies in competition with cooperatives.

"Relief under this heading "B" might be granted by the commissioner of income tax who would be empowered to grant it or by a provision for review by a quasi judicial body, such as a board of referees.

"The extent of possible loss to the Dominion Treasury by the special treatment above suggested for cooperatives and corporations in direct competition therewith, is probably not great. It is important to bear in mind the extent to which the income of cooperatives may be deliberately reduced if patronage dividends are not allowed as deductible, as well as the extent to which the income of companies in competition with cooperatives might be reduced, if inequality of taxation is continued, through the necessity of meeting that competition and preserving business."

BY MR. STEER:

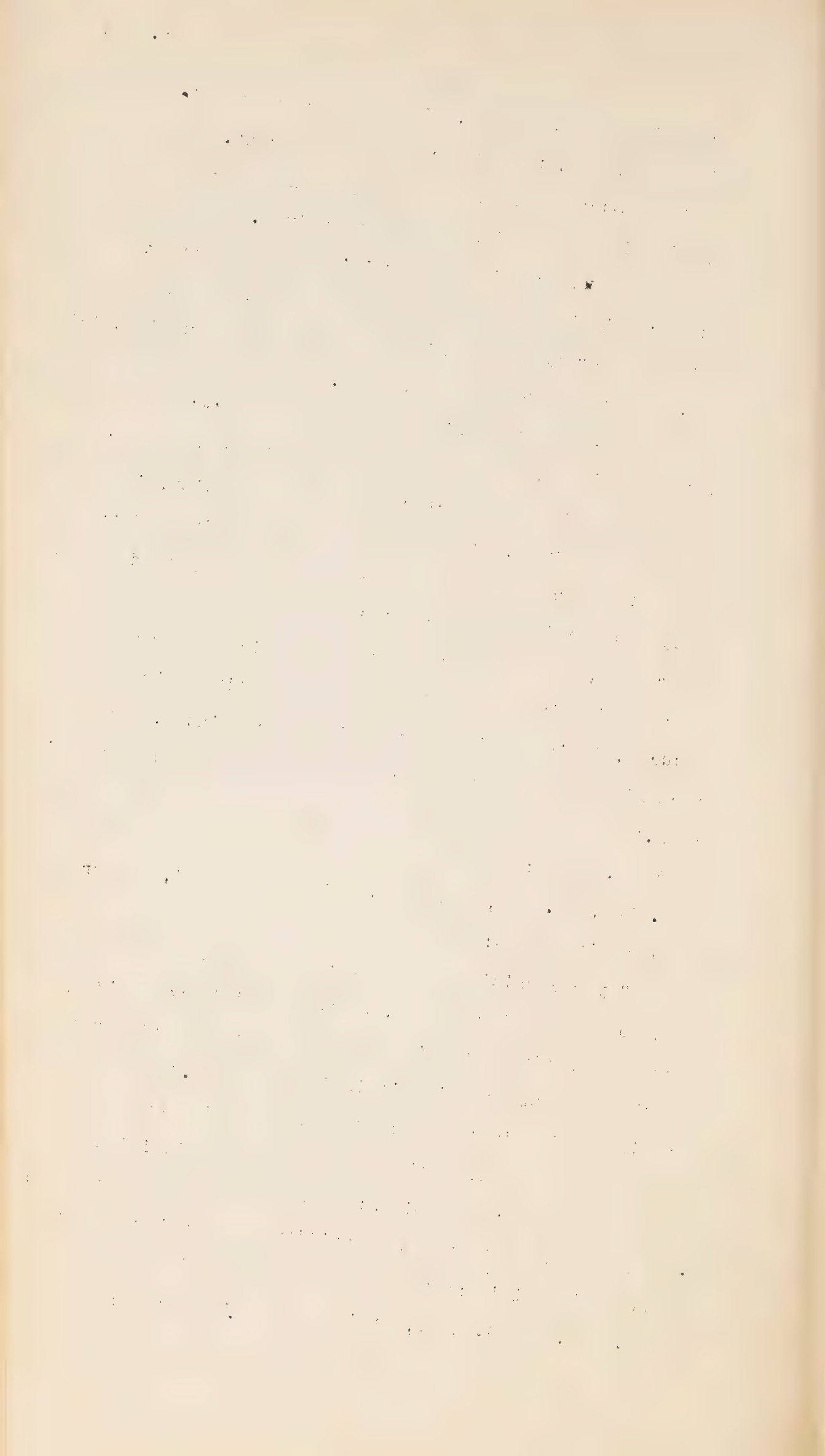
Q. Now, Mr. Law, would you refer to page 36, paragraph A(1) where it states:

"By recognizing as a deductible expense for the calculation of income tax, patronage dividends paid by any cooperative authorized to make such payments by the legislation under which it is incorporated."

There is nothing in there about a scheme which has been adopted as to the allocation of surpluses to individual members of these corporations; would you comment upon that?

A. Do you mean as to the desirability of adopting a system of allocating dividends?

Q. Yes. A. Well, it is our opinion that in the





grain business it is impracticable and extremely undesirable; and in making that statement I think I appear to be in agreement with a statement which was made earlier before this commission. That is, we would certainly not be happy to create -- and I do not know whether I am answering your question, but I think I am-- to create by the allocation of dividends a liability to pay them out at a fixed date later. Is that what you asked?

Q. Yes.

BY THE CHAIRMAN:

Q. You would not be in favour of that method of procedure? A. No.

BY MR. ELLIOTT:

Q. You are not proposing that funds handled in that way should be exempt, or are you? A. No, our suggestion as to exemption refers to the payment of cash dividends.

BY MR. STEER:

Q. As I understand it, your proposition is that so far as a company in the grain business is concerned, the allocation of such portions of surplus to individual members is impracticable? A. Yes.

Q. Did your directors consider the question at all?

A. I think it was touched upon, yes. That was the conclusion reached.

Q. That was the conclusion that was reached? A. Yes.

Q. That so far as that question of allocation is concerned, you would prefer to leave it to other people who are more directly interested? A. Yes; the point I make is that so far as we are concerned we are not interested, as a grain company -- we are not interested in setting up such liabilities as would have to be set up to individual members, if you allocate portions of your



reserves for future -- creating a future obligation.

BY THE CHAIRMAN:

Q. You would regard as deductible only what was actually paid? A. Yes.

BY MR. VAUGHAN:

Q. How is it impracticable? A. If you will turn to the table, showing the variability of your earnings, that may be clear. As I understand it -- and I am not an expert on allocated dividends or allocated reserves, but my impression is that at least in the case of allocated dividends they have a due date.

Q. Is that not one of the purposes set out, namely to provide a reserve for lean years? They have it under a reserve for a later time? A. But my understanding of allocated dividends is that it is payable at some definite future date.

Q. Yes, it is a definite liability payable at some date, but it spreads over a number of years in order to get away from any great loss in any one year. I understand it in that way; that is one of the purposes of it? A. There might be this condition: My point is that there might be falling due in a year when you would find great difficulty in meeting that obligation.

Q. Yet, if it were not there, there would be that difficulty anyway, would there not? If it is there when you want it -- and I am not an advocate of it, particularly; that is not the point -- but I am just trying to find out what the reasons are for its not being practicable in your case any more than in other cases where it is generally provided.

BY THE CHAIRMAN:



Q. Do I understand it in this way, that you do not regard the allocation of non-payment of patronage dividends as a true cooperative principle? A. I would not go that far. I am saying this, that it would not be a procedure or practice which we, as operators of a cooperative grain company, would regard as sound.

BY MR. STEER:

Q. But with regard to another business, you have nothing to say about it? A. I am not criticizing those who adopt the practice, no. But surely we know our business, and we do not think it is suitable to our methods of doing business,-- to adopt that system.

Q. It does not suit your method of business because, as I understand it, -- because of the very great variation in earnings from year to year? A. I have already said that, yes. And I have referred to page 24, which shows exactly how they vary. However, I do not wish what I have said to be taken as a criticism of those who like to handle their surplus in that way.

BY MR. ARNASON:

Q. Are we to understand that you doubt the practicability of the method of deferring dividends in the grain business? A. Yes.

Q. And that is your reason for criticizing it; that is your reason, apart from the tax question altogether, is that what you say? A. I am just trying to say that I do not think that system would suit our business. It may suit other types of businesses, but it does not suit ours.

BY MR. STEER:

Q. And your directors prefer to allow the matter to be considered with respect to those other types of business, apart from the grain business altogether? A. Yes.





Q. It would be useful if, from your experience, you gave to the commission some idea of the manner in which elevator companies such as yours, function. First of all, your company, in common with all other elevator companies, is subject to the terms of the Canada Grain Act?

A. Yes.

Q. And your elevators are all licensed as public elevators?

A. Yes.

Q. And in addition to having public elevator licences, your elevators have, or your company is also licensed with respect to those elevators as commission merchants, track buyers, and grain dealers ?

A. Yes.



Q. The different kinds of business that are done, I suggest to you, can perhaps best be determined by an examination of the different forms of contract that are to be found in the Canada Grain Act. I have here an office consolidation of the Canada Grain Act, 1930, and I find on pages 80, 81 and 82 three different forms of elevator receipt which are headed, "Special Bin Elevator Receipt", "Ordinary Elevator Receipt" and "Interim Elevator Receipt". Those three elevator receipts, as I understand it, are given to the customer who delivers grain to the elevator and retains the property in it himself?

A. Yes.

Q. They are commonly known as Special Bin Elevator Receipt, Graded Storage Elevator Receipt and Elevator Receipt for Graded Storage subject to Inspector's Grading? A. Yes.

Q. Strictly speaking it is with respect to that class of transaction only, where the question of ownership is retained in the farmer, that the term "handling charge" is applicable? A. Yes.

MR. STEER: I call your attention, Mr. Chairman, to the terms of these receipts. They all refer to:

"The charges payable in respect of the grain above described shall be as follows:

For receiving, handling and shipping the said grain--"  
In one case the identical grain is to be delivered back to the farmer, in the other two cases grain of the same quality and grade, the grain having been mixed with other grain, is to be delivered back.

BY MR. STEER:

Q. Those charges that are spoken of in the receipts for receiving, handling and shipping are controlled by the terms of and are subject to the regulations made by the Board of Grain Commissioners? A. Yes.





Q. If you refer to section 15 of the act, subsections (q), (r), (s) and (t) you will find set out the powers of the commissioners to make regulations. Subsection (q) reads:

"(q) Fixing the maximum charges authorized to be made by licensees under this act, or under the regulations applying to the conduct of business by such licensees, and specifying the mode in which such charges are to be advertised or notified to the public or to persons who may be interested therein."

The next subsection reads:

"(r) In particular, fixing or approving the maximum charges to be made for the discharge of grain into and out of elevators, and for the insurance against fire, storage, cleaning, treatment and handling of grain while in any elevator."

Then there is provision for other charges for different types of work to be done in connection with the grain.

. That class of business, as I understand it -- we are leaving out of consideration the war and the Wheat Board contract -- was a comparatively small proportion of the business done by these elevator companies?

A. In recent years, yes.

Q. But the situation might change and people might get the idea that they wanted to hold control of their grain for a longer period of time and that might become the larger portion of the business? A. It might, yes.

Q. But at the present time, leaving out of consideration the Wheat Board contract, the greater portion of the business is done by the actual purchase of the grain at the country points by the elevator company? A. Yes.

Q. And the actual purchase is carried out under the



Mr. Law

documents that are to be found at page 83 of this consolidation of the act, and those forms from 4 to 10A are really different types of cash purchase tickets?

A. Yes.

Q. As soon as that cash purchase ticket has been issued, the elevator company becomes the owner of that grain and takes all the risks with respect to it from that time forward?

A. That is so.

Q. The vendor under those circumstances receives a price which is based on what is called spot price, being the price at Fort William or Port Arthur?

A. It is based on the futures price, and at certain times it may reflect a spot premium which might exist at the date of the purchase.

Q. Am I wrong in this -- I probably am wrong -- but I am under the impression that when the actual wheat got to Fort William there was a spot price for the grain at Fort William?

A. Yes.

Q. Is that right?      A. Yes.

Q. And I was under the impression that the price at the country elevator was based upon what that price, what that spot price at Fort William was?

A. It might or might not be.      At times it might reflect possibly all of it; at other times a part of it, and at other times perhaps none of it.      It depends upon the conditions.

Q. Perhaps you will tell the commission what is meant by the term "street spread"?      A. The term "street spread" refers to the difference between the futures price, basis in store Fort William or Port Arthur, and the country price, after taking into consideration the freight. Perhaps I can put it in more simple language.      If the price of wheat at Port Arthur is \$1 per bushel and the freight is 15 cents,





that leaves 85 cents, does it not?

Q. Yes. A. And you pay your farmer 80 cents, so you would have a street spread of five cents.

Q. That is intended to cover -- A. That is intended to cover the handling charge of one and three-quarter cents, plus one cent that you would have got if you had sold it on consignment. I do not think you mentioned the commission charge. It would be plus the merchandising risk involved in buying grain at the country point on the basis of the grade at that point; taking the risk of loss in grade and any other risks that might be involved in moving that grain on to the final spot position.

Q. In dealing with the commission end of the business I did not mention the charges. A. You asked me how the spread was made up.

Q. So far as the commission end of the business is concerned, the elevator company makes its money by the collection of commission from the man for whom they sell the grain plus a charge for the handling of that grain? A. Yes. To clear this up, perhaps I might just say this: if a farmer desires to ship his own grain and the elevator company then acts as agent, he will collect from that farmer one and three-quarter cents for a handling charge and one cent per bushel for the business of selling it. In other words, he gets two and three-quarters cents, and the street spread is intended, or we hope at least to get that amount if we buy the grain, plus a sufficient amount to justify the purchase including the acceptance of the risk involved and some merchandising profit.

Q. When you come to Wheat Board wheat, whether it is a voluntary transaction between the farmer and the Wheat Board or whether, since September, 1943, it is a compulsory





transaction between the farmer and the Wheat Board, the elevator company simply takes in the farmer's wheat and pays to that farmer an amount for the grade of wheat that is fixed by the contract between the elevator company and the board?

A. Yes.

Q. And the amount of remuneration that you obtain for the handling of that wheat is also fixed by that contract?

A. Yes. Perhaps I could enlarge on that. Have you a copy of the contract ?

Q. Yes, I have a copy, but it is not the 1943 contract. The point I wanted to make is that this contract with the Wheat Board -- in dealing with this I prefer not to bring into the picture at the moment the change in price upping by two cents which occurred; let us forget that for the moment-- the contract with the Wheat Board that was entered into for this season's operations specified that we were to pay to the farmer certain fixed prices at the local point in accordance with the schedule attached to the contract, and that schedule provided that the price was to be \$1.25 at the head of the lakes, less freight and less three cents; that is how the schedule was made up. As the Commission has already discovered, those prices were increased by two cents, notwithstanding the contract.

BY MR. PARKER:

Q. Increased? A. Increased.

MR. STEER: Mr. Chairman, there is a book here which I would be very glad to leave with you. It covers a number of papers that were delivered at the world grain exhibition and conference held in Regina in 1933. There are three articles in that book which deal, first, with merchandising methods in wheat marketing, commencing at page 186; grain merchandising and the functions of the elevator system of



western Canada, which commences at page 193, and the place of the grain exchange in the world's wheat marketing, which commences at page 217. If you care to have that I shall be glad to leave it with you.

THE CHAIRMAN: We might add that to our library, which is growing daily.

MR. STEER: By the way, I had better mention that is from the United Grain Growers.

THE CHAIRMAN: We had better have an indication of where it comes from so that it can be returned.

MR. STEER: We have had copies mimeographed of one of these articles and I will supply copies of that as well.

BY MR. VAUGHAN:

Q. You stated a while ago that the largest amount that could be retained by your organization was \$297,000 plus the 20 per cent? A. Yes.

Q. I was wondering how you arrived at that figure when the year's results are variable, sometimes there being a loss and sometimes a profit?

A. It is fixed by the manner in which the Excess Profits Tax Act operates. There is a limit under that act.

Q. In any year, no matter what your profits are?

A. We may make millions and that would be all we would have left. That is almost automatic under the Excess Profits Tax Act. \$297,000 is the figure of what we get, and that depends entirely on the size of the excess profits tax. If we had an excess profits tax of a million dollars, we would only get \$297,000 back.

Q. It does not matter what your profits are, you say it would be no more than that? A. We can make all the profit we like but we cannot retain it.

Q. That is what I mean. Regardless of the degree of profit, the amount you can retain is only \$297,000?





A. Yes, plus the rebate.

Q. Plus the twenty per cent. There are a couple of questions I should like to ask. I have just been comparing the recommendations you make with respect to cooperatives and other corporations, and I notice there are some differences under B, covering corporations. Under (1) you suggest that dividends would be allowed under certain conditions, that is, as expenditures necessary to obtain and preserve business. There is no condition like that in connection with the cooperatives? A. I do not quite get your point.

Q. You say that in connection with cooperatives that patronage dividends are deductible, but in the case of the corporation there is a condition attached that they are to be expenditures necessary to obtain and preserve business?

A. This applies to companies who can persuade possibly the Board of Referees or the Commissioner of Income Tax that they are operating with certain lines or in a field where they have to meet cooperative competition.

Q. I understand that, but even in connection with those corporations which do compete there is a condition attached that they shall be expenditures necessary to obtain and preserve business, and there is no such condition in connection with the cooperatives; they can pay it out without any condition. What I am asking is why it is necessary to put a condition in the case of competing corporations?

A. If we omit that it seems to me that we are recommending the complete adoption of the British system. We are trying to meet the situation by at least a partial adoption of the British system and this is intended to deal with such companies who are in close competition with cooperatives and who find that they have to make these payments to obtain and preserve business. I think that is the reason we put it in there.



MR. STEER: I wonder if I could suggest that the cooperative has a right by its charter, we will assume, to pay this. The B part refers to the ordinary corporation in direct competition with such cooperative which under its charter has a right to pay a dividend, and it may find that in order to meet that competition it has to pay this analagous payment. That is what is intended.

MR. VAUGHAN: I understand that, but I do not understand the imposing of a condition, that is, where a condition is imposed on the corporation that does not exist in the case of the cooperative.

MR. STEER: The Commissioner of Income Tax or the Board of Referees would have to consider the whole situation and determine whether or not that corporation, in order to meet the competition of the cooperative grain organization, would have to pay something analagous to it.

MR. VAUGHAN: Why should not the corporation be just as free to do it as the cooperative?

MR. STEER: There is no reason why they should not be as free to do it provided the statute gives them the right.

MR. VAUGHAN: Provided the law permits it, but this is a suggested condition to be attached to the payment of patronage dividends by the corporation, when it has been shown that it is necessary to pay it in order to obtain and preserve business.

MR. STEER: If that interpretation were to be placed on it, it is not what we intended. If an ordinary corporation in competition with the cooperative grain Company chooses to pay a patronage dividend, it would have the right to do so.

MR. VAUGHAN: It is really not intended in the way I took it.





MR. STEER: I think that is so.

BY MR. VAUGHAN:

Q. I have just one other question along the same line. In recommendation (2) under A, as applied to cooperatives, for instance, dividends up to five per cent paid by cooperative organizations on a capital stock basis are allowed. What would that five per cent be on, just the capital stock?

A. The capital stock.

Q. It would not be on the capital employed? A. It would be on the capital stock.

Q. That would be quite a different thing. In the case of the corporation it would be the capital stock issued, plus surpluses? A. Well, we thought that that was probably as far as the recommendation for allowances on dividends paid on capital stock would go.

Q. I think that goes a long distance? A. We meant what we said there.

Q. It may not be as generous toward the cooperative; that was the point in my mind there. In a cooperative you are restricted to five per cent of the stock issued, according to your explanation? A. I see your point.

Q. I suppose the intention is to put them as near as possible on the same basis, is that it?

A. Yes.

BY MR. ARNASON:

Q. I was interested in your recommendation number three, under clause A at page 37. In connection with that have you any information as to the percentage of business that your company does with non-members at the present time? A. We took off some figures in 1942 and at that time we could have made application under section 4 (p), but we are not in position now -- we would have been if the payment of





these patronage dividends had not been interfered with by the decisions of the taxation authorities. That is to say, I think you understand, Mr. Arnason, that when these patronage dividends are paid they are not payable in respect to non-members. Because of this bill we have been forced to make those applications restrictive.

Q. Do I understand you to say, Mr. Law, that you allocated these patronage dividends only to members and not to your non-member customers? A. Strictly to member customers, yes.

Q. Now, on page 31 you say that in the grain business it would be rather impracticable to segregate the sources of revenue as between member and non-member business. I wonder whether you would enlarge on that a little, especially in view of your statement that you made such a calculation in 1942? A. Well, quite a bit of our revenue comes from non-members, as is the case, I think, with most grain companies. His Majesty the King is not a member of any grain board and we get a lot of revenue from crown wheat. We may sell grain to exporters, for instance, and they may decide to retain it in storage. We would collect storage on that. But in addition to that it would be difficult to keep track of the minor revenues which do come from people who for some reason or other are not members. It would be difficult, but not impossible.

A. I suppose anything is possible if you provide yourself with enough books and papers and accountants and clerks.

Q. One more question, Mr. Law. On page 6 you state that your company operates a plant in Edmonton for the manufacture of a complete line of live stock feeds?

A. Yes.

Q. Which is sold and distributed through your country



elevators?      A. Yes.

Q. At other hearings of the Commission some discussion has taken place as to how far a producers' cooperative should go in processing products delivered to it by its members. I wonder whether you would care to express any opinion as to how far a producers' cooperative should go, bearing in mind the taxation problem?

A. Do you want me to outline our operations at Edmonton?

Q. No.      A. It would be simple, of course, and I shall be glad to do it if you want an explanation.

Q. No. Perhaps I did not state my question clearly. I think one witness suggested that a producers' cooperative, taking delivery of agricultural products in the raw state and delivering to its members, should be entitled to process the product for sale, but that any further processing or refinement of that type of activity should be left to other organizations than the producers' cooperative?

A. I would not agree to that.

Q. Why, Mr. Law?      A. It depends on the type of operation, of course. If it consists of processing a primary product of the members and finally disposing of it, I see no reason why that should not be considered as part of the revenue of the cooperative and treated as other revenue. Is that your point?

Q. Yes, but supposing the process were carried a little further than that? I think it has been suggested that a processing which is ancillary to the marketing of the original product may be considered as part of the functions of a marketing cooperative, if the refinement of the processing is carried to a further stage a different situation may arise?      A. Yes.

Q. For instance, the product may consist only to a





limited extent of ingredients which form part of the commodity originally delivered by the members?

A. I have not really given careful consideration to that. It is a very interesting point. I should like to give that some consideration before answering, if you do not mind.

THE CHAIRMAN: We will adjourn for lunch for that purpose.

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At 12.30 p.m. the Commission adjourned until 2.15 p.m.

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Ottawa, Monday,  
April 30, 1941.

The Commission resumed at 2.15 p.m.

MR. R. S. LAW, examination continued.

MR. STEER: Before we commence, Mr. Chairman, I wonder if, speaking to Mr. Commissioner Vaughan, I might call his attention again to subsection (1) on page 37. The wording may not be as clear as perhaps it might be, but what is intended by that subsection is, by recognizing payments analogous to patronage dividends. They are not called patronage dividends; they are analogous to them; and our suggestion is that they should be recognized as expenditures necessary to obtain and preserve business, and consequently should be allowed as an expense under the Income War Tax Act.

MR. VAUGHAN: I see; thank you.

BY MR. STEER:

Q. Now, Mr. Law, Mr. Arnason asked you a question, as to your views on the extent to which cooperatives ought to be permitted to process the products of its customers or rather I should say of its members. Would you give your views on that now? A. Well, my view on that is that the cooperatives should be allowed to process the product of the member, delivered to it, until it gets into a marketable commodity which is required for the final market. As to where the line should be drawn, and I think Mr. Arnason asked me that, that is what I wanted to think over in connection with that matter. I really do not know where the line should be drawn in operations of this type, and I do not think I would attempt to draw the line. For instance, take barley. You might argue that barley should be turned into malt, the malt should be turned into beer, and you might have co-operatives operating beer parlours in order that they might



bring the final product to the consumer. That is not intended, but it is just a sample of what is involved in the question the Commissioner addressed to me. I do not know where the line should be drawn, but it should be drawn at a reasonable point in the operation. Where that point should be, I confess I would not like to express an opinion.

BY THE CHAIRMAN:

Q. It might go well beyond the primary product, however?

A. Yes.

BY MR. STEER:

Q. For example, you suggest that there would not be any doubt that a cooperative grain company should be permitted to mill its product? A. It should be permitted to mill its product. Absolutely.

Q. How much further it should go is a matter for somebody else to decide? A. It is a matter for pretty careful examination.

BY MR. VAUGHAN:

Q. Should they go as far as baking it? A. I would not express an opinion on that, because there you get into the question of the distribution of bread, and into the category of beer parlours in the other example I mentioned.

MR. STEER: I have nothing further.

BY MR. VAUGHAN:

Q. Perhaps I might follow up the few questions I asked a short time ago. As you know, Mr. Law, the Commission's inquiries cover mutual fire and credit unions. Were these recommendations intended to cover those two classes? A. They were not taken into consideration at all.

Q. Then these are not intended to cover them at the moment, anyway? A. No, sir.





Q. Just one other question. You drew particular attention to the fact that these recommendations applied only to corporations in direct competition with cooperatives?

A. Yes.

Q. Let us say that these recommendations were seriously considered. Do you not think there would be some complaint from companies which are not in direct competition with co-operatives? Take many manufacturing concerns, construction concerns, transportation companies, telephone companies and so on. Would they not claim that companies operating in competition with cooperatives were given some special privileges?

A. They might do that. May I say just here **that** while we are very definite that our references in respect to A are what we desire, B is really offered to the Commission as a suggestion and a suggestion only, to be subject to the necessary examination into its faults and what-not. I do not want the Commission to think that there is as much emphasis on B as there is on A. It is merely an attempt to make suggestions to the Commission which we thought might be perhaps of some little help in meeting what we presume to be the desire, to somehow remove the tax discrimination.

Q. If your recommendations under A were adopted, they by themselves would not bring the corporations on anything like the same basis. You really have to go to the second group of recommendations to bring them in line? A. To bring them in line? That is what we are trying to do, bring them in line with the cooperatives.

Q. But it requires your recommendations under B to bring them in line? Those under A would hardly be sufficient by themselves? A. I do not think I can add anything more to what I have said, Mr. Vaughan. Those under A deal with



cooperatives, and that is what we are interested in. Those under B deal with other types of companies and are more in the way of suggestions rather than an expression of our views in respect to cooperatives.

BY MR. PARKER:

Q. Mr. Law, just a few questions in reference to certain aspects of the business carried on by this company. Can you tell me in what respect the method of operation of your company differs from the method of operation of an ordinary joint stock company? By ordinary joint stock company I mean one that does not contend to be a cooperative in any sense? A. You are speaking of operations only, and not control?

Q. I am going to put it under two headings: first, its method of operation; second, its capital structure. You can deal with both headings, if you like. In its method of operation, in what respect does it differ, we will say, from the ordinary line elevators, from which we are going to hear very shortly? You know how they operate? A. Yes.

Q. In what respect does your company differ, in its method of operation? A. The day-to-day operation?

Q. From the ordinary line elevators. Name the differences, one, two, three? A. The day-to-day operation, the handling of grain, is practically the same.

Q. All right. A. That deals with the operation.

Q. They are the same as far as methods of operation are concerned? A. Yes.

Q. Then as to capital structure, what is the difference? A. The capital structure of the United Grain Growers consists of A stock, which is a preferred stock, and of B stock, the ownership of which is restricted by an occupational limitation.





It can only be owned by farmer customers. The voting rights are confined to owners of B stock, and regardless of the number of shares held the owner has only one vote.

Q. On what? On what occasions does he have one vote?

A. On two occasions.

Q. What are they? A. The voting privileges enjoyed by the B members are exercised at a local meeting of B members, and perhaps I might say that prior to the annual meeting of the company, usually between September 1 and the date in November when the annual meeting is held, these groups meet and at those meetings the B shareholders have the right to vote. It is one man, one vote. At that meeting they elect a delegate to attend the annual meeting of the company --

Q. I do not wish to interrupt you, but that is all set out in your brief. A. I thought you were asking me --

Q. Enumerate them generally, under what headings and in what respect they would differ? A. They are different in that respect.

Q. They are different in this respect also, are they not, in that there is no such thing in your company as a general meeting of all the shareholders together at any one time? A. No; the annual meeting is the meeting of the delegates.

Q. It is also within the control of the directors, is it not, to fix the territorial limits of the so-called locals? A. Yes.

Q. Is it true that the number of members in each local varies greatly, from 50 or 60 to several hundred? A. It varies from 50 to perhaps 200. I have not those figures, but it varies.

Q. But each local sends one delegate? A. Yes.



Q. And each delegate has one vote only? A. Yes.

Q. Therefore I suggest to you that the principle of one member, one vote, which I understand is a principle of the Rochdale plan, is not the case in your company in this sense, that when you have 50 shareholders represented by one delegate, when the delegate votes you might say each shareholder has one-fiftieth of a vote. That is what he is expressing, through his delegate? A. Yes.

Q. Whereas in the case of a larger local, where there are 200 members, each member is only speaking through his delegate to the extent of one two-hundredths of a vote?

A. That is true.

Q. So it is quite a different set-up from the well known principle of one member, one vote. In the affairs of this company the member does not have any such thing, does he? A. Well, in the case of this company, as stated--

Q. I have stated it as it is? A. It is one man, one vote, whether in a local or in an annual meeting.

BY THE CHAIRMAN:

Q. May I just put in a question here? Is that why you say on page 16 of your brief, among other reasons:

"As to (a) it has been shown that in organization and structure the company conforms substantially to the principles of the Rochdale plan --"

Exactly what do you mean by "substantially"? Do you mean these differences which Mr. Parker is now bringing out? It is the qualification there, "substantially," that I should like to know about. A. Yes, Mr. Chairman, we claim that it does substantially conform to those principles.

Q. Then in what respect does it not conform? A. I really cannot tell you.



Q. Then the word "substantially" there is not accurate. What do you mean by "substantially"? That is on page 16.

A. Yes, I have it here.

Q. That same idea runs through your brief in a number of places. For instance, on page 1 you say:

"Its constitution and form of organization conform as closely to the Rochdale plan as that of any other large co-operative --"

There is a qualification there, also? A. Yes.

Q. I should like to know about that? A. I have a note of what we consider the essential features of the Rochdale plan. Perhaps that will help us to answer the question.

Q. But what I really want to know, and what I think Mr. Parker wants to know, is in what features you are not a cooperative? A. As compared with the Rochdale plan?

Q. Yes. May I suggest that it is possibly the failure to pay patronage dividends regularly? A. No; I would doubt whether the cooperatives of Great Britain pay patronage dividends regularly. We have used that expression, I think, because the Rochdale plan, as we see it, had these essential features.

1. Voting on the principle of individual membership.

2. Fixed or limited dividends on capital.

3. Limitation of share holdings.

4. Provision for payment of dividends based on patronage, and retention of part of the surplus in a common fund for the furtherance of the ends of the cooperative organization.

I have not examined, and I could not answer a question, as to what extent we differ. That is the question, is it not?

Q. I take it from your brief that when you regard it as expedient not to do so, you do not pay a patronage dividend?





A. Yes.

Q. That is true, is it not? A. Yes, that is true.

BY MR. ELLIOTT:

Q. The Rochdale Pioneers were a consumers' cooperative?

A. Yes.

Q. And your organization is primarily a producers' or marketing cooperative? A. Primarily a producers' cooperative, but it has its department which looks after the farmer as a consumer.

Q. So there is some difference in the type of business, as between the British cooperatives and your own? A. Yes, a difference in type.

Q. Do I understand, then, that the word "substantially" on page 16 means as far as may be, taking into consideration the differences between the Rochdale set-up and your set-up? A. I think that would be a safe conclusion.

BY MR. ARNASON:

Q. Just on that point, Mr. Law, and following your answer to Mr. Elliott, would it be true to say that whereas the Rochdale Pioneers were formed originally on the basis of a small group, which made possible personal contact between a member and the store, you are here or have been trying to adapt the same principles, in so far as is possible, to the handling of a commodity that lends itself to large-scale operation most economically, and where the same interest is common to a very large number of people, which makes it inexpedient or at least difficult to have the degree of direct personal contact between the member on the land and the headquarters of the company? A. Yes.

BY THE CHAIRMAN:

Q. Then when principle meets expediency, which gives



way? A. Would you repeat the question, Mr. Arnason?

MR. ARNASON: Perhaps the reporter would read it.

(Reporter reads: "Would it be true to say that whereas the Rochdale Pioneers were formed originally on the basis of a small group, which made possible personal contact between a member and the store, you are here or have been trying to adapt the same principles, in so far as is possible, to the handling of a commodity that lends itself to large-scale operation most economically, and where the same interest is common to a very large number of people, which makes it inexpedient or at least difficult to have the degree of direct personal contact between the member on the land and the headquarters of the company?")

MR. ARNASON: Perhaps if I reworded that last part of it --

THE WITNESS: I did not get that last part.

BY MR. ELLIOTT:

Q. This follows, I think, as one of the possible differences. To what extent have you been successful in transferring the B shares from the hands of people who are now not customers to the hands of current customers of the United Grain Growers? A. Well, it is happening almost daily. I have not the exact figures, but at the time of the redistribution a lot of the original shareholders were not interested in the B stock. A very great number of them gave up the B shares and took the cash. Perhaps I might just point out that the par value of the original share was \$25. Then the A share was \$20, so we had to give them a B share. In a great many cases the B share was cashed in. To-day they are drifting in; I have not the exact figures.





Q. Am I right in understanding from your brief that it is your intention to try to transfer those B shares from the hands of the people who are not now your customers to the hands of those who are? A. Yes, we are very keen on doing that.

BY MR. PARKER:

Q. You used the expression a number of times in your brief that you are adapting the Rochdale principles to your organization, or words to that effect; or rather that you have adapted your organization to the Rochdale principles, or something to that effect? A. Yes.

Q. What you are really doing, I suggest, is to engraft on to the Rochdale principles a method of operation that is so far removed from anything that was in the contemplation of the Rochdale Pioneers that they are scarcely recognizable. Is that putting it too strongly? A. Yes, I certainly think it is.

Q. Let me point out one or two particulars in which you have departed, then. To begin with, this system of delegate voting was quite unknown and unheard of, was it not, under the Rochdale principles? A. I would not say that.

Q. One member, one vote at the annual meeting of the members was one of the primary rules of that organization, was it not? A. As I understand it, there is a connection between the retail store and the C.W.S., speaking of England only, and I would be rather surprised if the representation of the local store is not provided for by a delegate vote in the annual meeting of the wholesale. I think there must be some provision for some form of delegate voting. I cannot speak with any definite authority on that, however.



Q. I also suggest that it was quite unknown as one of the Rochdale principles that a large corporation such as yours should own and operate a large number of wholly-owned subsidiaries, organized on the ordinary joint stock company basis, which carry on business at a profit and return those profits back into the so-called parent company. I suggest that was quite unknown to the Rochdale Pioneers. What do you say to that? A. I cannot say that the Rochdale system to-day is not doing the very same thing. I do not know.

Q. My suggestion may be unfounded, but I thought perhaps you would know. The Rochdale principles did not contemplate, did they, that the members would have large blocks of share capital, such as your company has; that is, class A and class B, raising very substantial sums from the sale of shares, and also that they should have heavy bond issues, raising capital by issuing bonds secured by mortgages on the assets of the company. Was that principle involved in the Rochdale Pioneers? A. I do not know what they are doing at the moment.

Q. You do not know whether or not that was a part of the Rochdale idea? A. No.

BY THE CHAIRMAN:

Q. It does not matter what they are doing now, Mr. Law; it is a question of their principles. A. Well, a hundred years ago I do not imagine there were such things as trust deeds of the kind we know to-day.

BY MR. PARKER:

Q. These are things which your company has done, as you say, by way of adaptation of the one to the other? A. Yes. I think we have made that clear; it is an adaptation of the Rochdale plan to meet our western conditions. That is all



we claim.

Q. I understand that. One more thing. Did the Rochdale principles contemplate this, that in the disposition of the savings or earnings or profits, call them what you will, a large portion of them should be disbursed in proportion to the share capital, that is in proportion to the number of shares held, and that the balance should be distributed on the basis of the business done with the association? Was that included in the Rochdale principles? A. I believe it was.

Q. I started out really to ask you in what respects the operations of your company were different from the operations of an ordinary joint stock company. We sort of got drawn off to the differences between your company and the so-called cooperatives. I was rather comparing it with a joint stock company, to begin with, so let us go back to that.

A. By that you mean the day-to-day transaction of business?

Q. I think perhaps you answered that. You say there is no difference, as far as the day-to-day work is concerned?

A. Yes. The elevator companies are operating in the same way.

Q. And in the controlling of these subsidiaries. That is what a number of these joint stock companies do; they have wholly-owned subsidiaries? A. Yes.

Q. That is very much like your company? A. Yes.

Q. But I suggest there is one difference in your charter, in your company, from the joint stock company, and it is this; that you have authority, that is your company has statutory authority, to pay patronage dividends if you are so minded, that is if the directors come to the conclusion that they ought to be paid. Is that right? A. Not exactly.

Q. Then tell me about that. I thought it was in your





charter. A. I was going to refer to the by-laws.

Q. I suggest that it is in your charter? A. Yes, but the charter calls for a by-law.

Q. I appreciate that, but the by-laws, as you know, could be no wider than the charter under which they are made?

A. Very well; we will look at the charter.

Q. I do not want you to read the charter itself; I just want to shorten it up. Is it in your charter; if so, tell me the section? A. It is Section 5 of the Act of 1941. There the directors of the company are given power, by resolution adopted at a general meeting.

Q. Exactly. I was right, then, was I not, when I said that the company, by its charter, has authority, by taking the proper procedure, to pay patronage dividends? A. Yes.

Q. Whereas the ordinary joint stock company -- this may be a question of law, but I think you will know what I am getting at -- does not ordinarily have any such power? That is correct, is it not? A. Yes.

Q. So in that respect your company is different from the ordinary joint stock company; is that correct? A. In respect to the payment of dividends; yes.

Q. Yet the authority to pay patronage dividends, as contained in your charter, is restricted to paying those dividends out of the profits earned by the company, is it not, and from no other source? A. Yes, that is right.

Q. Therefore it presupposes, your whole set-up presupposes from A to Z in your charter, in your by-laws, in your method of doing business, that United Grain Growers Limited are operating for the purpose of making profits; and that outside of one or two unsuccessful years they have made profits right down through the years. Is that correct?



A. Our annual net earnings have always been described as profits.

Q. Was that not what it started out to do? Was that not what the company was organized to acquire, at its inception, and has it not been one of its objects right down through the years, until the present time? A. Subject, of course, to the right to pay patronage dividends.

Q. Subject to the right to dispose of those profits on a certain basis? A. Yes.

Q. And one of those bases on which you are authorized to dispose of profits is to pay some of them back to patrons of the company? A. Yes.

Q. But for that you are in all respects carrying on business, and I am speaking generally, the same as any ordinary joint stock company? A. No, I do not think so.

Q. If that is not correct then you put me right? A. Well, I think it is pretty obvious that we are not an ordinary joint stock company, for very obvious reasons. There is the constitutional structure. If we had been an ordinary joint stock company we would not have gone to the trouble of getting a special act of the Dominion of Canada.

Q. Perhaps not. Have you finished? A. Yes.

Q. I pointed out a moment ago that you were restricted to the payment of patronage dividends out of your profits. I will go one step further. You are only permitted to pay them out of those profits after there has been sufficient to provide for a dividend on your share capital. Is that correct? A. That is correct.

Q. Then just a word about subsidiary companies. You have listed them, I think, at the beginning of your brief? A. Yes, I think so.





Q. You do not give us any information in your brief about them, and the statement which you have filed is naturally a consolidated statement, is it not? If required, could you furnish us with copies of the financial statements of the various subsidiaries? A. We have filed the consolidated statements only.

Q. If it becomes necessary or desirable for the Commission to have them, are you in a position to furnish us with copies of the statements of your several subsidiaries? A. Yes.

Q. Very good. I do not ask for them at the moment. One of your subsidiaries is an insurance company, or an investment company? A. An insurance company.

Q. By the name I take it to be an investment company? A. I will explain that. The word "securities" was used because at that time we had in mind --

Q. The name is United Growers Securities Company Limited. It was incorporated when? A. In 1918.

Q. That was some twelve years after the parent company was incorporated? A. Yes.

Q. Why had it become desirable, twelve years later, to organize a securities company or an insurance company? A. Largely to handle our own insurance. It is not an insurance company, Mr. Parker; it is an insurance agency. We act as general agents.

Q. That is what I am trying to get at. A. It is a general agency company through which is handled all the insurance on the properties of the United Grain Growers and subsidiaries, and a certain amount of business with --

Q. The general public? A. Mainly with farmers, and to some extent with the general public.



Q. That is what I want to get at. It carries on three types of insurance, then, as I gather it. First it arranges, as an agent, with the ordinary companies -- it is not an insurance company itself? A. No, it is not.

Q. An insurance agency? A. Yes, it is a general agency.

Q. It secures insurance on the physical assets of the parent company? A. Yes.

Q. That is one purpose? A. Yes, and the contents.

Q. It also arranges insurance for individual members of the company, of which you have many thousands? A. Yes.

Q. On their individual farm properties, and that sort of thing? A. That is right.

Q. That is not the business of the company at all, is it, the individual members as far as their carrying insurance is concerned? A. It is transacting the individual business of the members.

Q. In the third place it writes insurance on behalf of anybody who applies to it? A. Yes.

Q. And is it through this company that the parent company arranges its investments, purchases Victory bonds and that sort of thing? A. No. The word "securities" has no bearing there.

Q. Is the business of this company confined purely to those three types of business I have mentioned? A. It is confined to fire and hail and automobile and bonding --

Q. With those three groups of people? A. The company's own properties, the members and a few people, not many, who are not members.

Q. And for years it has been operating at a profit?  
A. Yes.



Q. It is an ordinary joint stock company? A. Yes.

Q. Of itself it does not purport to be a cooperative, does it? A. No.

Q. All the shares in it are owned by the United Grain Growers Limited? A. Yes.

Q. And how much capital has this company? A. \$100,000.

Q. United Grain Growers invested \$100,000 in the capital stock of this company? A. Yes.

Q. Where did they get that money to invest in the capital of this company? A. From its own resources.

Q. Its own earnings or reserves? A. Its own resources.

Q. What do you mean by its own resources? A. I mean its own resources. When it bought the shares it issued a cheque.

Q. But was the cheque honoured out of the earnings or profits of the company, or out of some other fund which it held in its hands; do you know? A. We had the money in the treasury to meet the cheque.

Q. Does this company pay to United Grain Growers dividends on those shares, annually? A. Yes.

Q. At what rate? Is there any uniform rate? A. No.

Q. They vary according to how well they do? A. Yes; that varies.

Q. And that amount appears as income in the accounts of the parent company? A. Yes, in the gross revenue of the parent company.

Q. Does the same thing apply, generally speaking, to the other subsidiaries? Let us take them one by one. First there is United Grain Growers Terminals Limited. When was that organized? A. In 1926.





Q. I take it this company owns the terminal elevators?

A. No, it does not.

Q. What does it do? A. It operates the terminals.

Q. In whose name is the title to the terminals?

A. The title is in the name of the United Grain Growers.

Q. This is just an operating company? A. Yes.

Q. Why was it considered necessary or desirable to turn these terminal elevators over to a separately incorporated company? Why did not United Grain Growers operate them the same as they had up until 1926? A. For technical reasons in connection with the sale of grain at that time it was thought desirable to have a separate incorporation.

Q. What was it thought this company would be able to accomplish that the parent company could not do as simply as a branch of its own business? It seemed to have gotten along up to that time without this change. What happened to bring the change about? A. Well, there was one technical reason in connection with the sale of grain, I remember, in connection with which the separation of the operation from that of the parent company was considered desirable. There is no particular reason --

Q. Oh, there must have been, I suggest. You do not just deliberately go out to make that departure from your method of operation and incorporate a company without some particular reason, I suggest? A. The only reason I can think of was in connection with some technical matter or some regulation respecting the sale of grain from the parent company, on behalf of consigned grain. There was no particular reason, I suppose.

Q. All right. If there was no particular reason it was done, in any case. I am not particularly interested in the reason, and if you say there was none, that is all.



Anyway, from the time it was incorporated, has it been uniformly profitable? A. The Terminal Company?

Q. Yes. A. Yes, it has.

Q. And, as we had it with the other company, the parent company bought shares, capital stock in the company? A. Yes, they bought it.

Q. How much? A. 100,000.

Q. One hundred thousand; and it has been receiving dividends? A. Yes.

Q. It has been receiving dividends which it turns into the revenues of the company. A. Yes.

Q. And, we have two publishing houses, namely The Public Press, Limited, and The Country Guide, Limited. Were they incorporated at the same time? A. No, not at the same time.

Q. Let us take The Public Press, Limited, first; when was that incorporated? A. In 1907, I think; it was in the early days.

Q. That company was your company. A. Incorporated before the amalgamation.

Q. When was The Country Guide, Limited, incorporated? A. Two years later.

Q. Anyway, they both have share capital. A. Yes.

Q. Owned by the parent company. A. Yes.

Q. How much in each? A. \$200,000 in the Guide, and \$304,500 in The Public Press.

Q. Then, in the companies, up to date, that gives you a little over \$700,000 invested in those companies?

A. Yes.

Q. And these two are earning money, are they?

A. Yes.

Q. And, the same as before, their profits are





channelled back into the parent company? A. Yes.

Q. Then, we have The Grain Growers Export Company Limited. A. Yes; that has been inactive for many years. We do not operate it. We have the charter, but we are not now in the export business, today.

Q. It is dead. A. Yes, it has been inactive since 1928, I believe it was.

Q. And, the United Livestock Growers', Limited. A. That is inactive, also.

Q. It is dead, too? A. Yes.

Q. Coming back to the United Grain Growers' Terminals Limited; does it handle grain through its elevators for anybody other than United Grain Growers', Limited? Does it do business with the general public? A. The Terminals?

Q. Yes. A. We store grain, of course, for the wheat board.

Q. And apart from the wheat board. A. We store grain for other exporters who buy it and leave it there awaiting shipment.

Q. The same as the line elevator companies are doing? A. Yes, about the same.

Q. Then, coming back to The Public Press, Limited; is it correct to say that The Public Press, Limited, conducts a printing plant, and besides printing The Guide, does a considerable volume of high quality printing for the general public; is that correct? A. Yes, that is correct.

Q. You recognize those words, do you? A. Yes. We even print reports of royal commissions.

Q. What is that? A. I said I believe we even print reports for royal commissions.



Q. What I really was interested in was the report from yourself to your meeting of delegates.

THE CHAIRMAN: We have not reached that point, yet.

BY MR. PARKER:

Q. The Country Guide, Limited, is the company which prepares material which appears in the publication of The Country Guide, a copy of which was tendered this morning.

A. I beg your pardon?

Q. The Country Guide, Limited, is a company which edits and prepares material, and solicits advertising, and that sort of thing, which goes into the magazine we saw this morning? A. Yes; we have the usual editorial staff, and advertising staff.

Q. Why was it necessary to have two companies, one to compile the material, and another to publish it? Why did you set up two separate companies? A. There is quite a distinction between the business of producing a magazine, and that of printing it.

Q. That is your answer, is it? A. yes.

Q. That there is a difference, and that it was desirable to separate them. A. Yes.

Q. Then, with respect to the insurance company, is it correct to say that a considerable volume of insurance is written for farmers and the general public, through a force of agents established at many different points in the western provinces; is that a correct way to describe it? A. That is in the report, is it?

Q. I am reading from your report. A. Yes, that is correct.

MR. STEER: Which report is that?

MR. PARKER: The annual report of 1944, at page thirteen.



BY MR. PARKER:

Q. Now, just a word about the way your accounts are kept. Are the accounts for what we will call the producer end of the company's business, and the consumer end, kept separately? Are they kept separately, so that you can take off at any time a statement showing whether both parts of the company's business are paying? A. Yes, we have a separate system. We have a farm supplies department, a separate department, and it has its separate departmental accounts.

Q. That department had its origin in supplying binder twine, and other commodities which the grain growers need to help them to produce grain; is that correct?

A. Yes.

Q. That is the way it had its origin? A. Yes.

Q. But since then you have grown, and are now a general trading company. You deal in coal; I believe you are the largest retail coal distributor in western Canada.

A. Yes, I think we are.

Q. And you distribute coal, not only to members of your company, but to the general public? A. Yes, we have some non-member business, yes.

Q. And do you keep your accounts in such a way that you can tell how much of the coal business you do with members of your company, and how much of it you do with non-members? A. No, we do not.

Q. Do you keep accounts of your subsidiaries in such a way that in each case you can tell the amount of revenue you received from member business as distinct from the amount received from non-member business?

A. No.

Q. Then, it is not difficult to understand the





statements made in your brief as to the difficulty you find in arriving at the amount of member and non-member business, is it? That is not difficult to understand, if you do not keep accounts separately. A. I think the word "profits" is used -- the profits of non-member business.

Q. No, it is the amount of business. I am using the words that are used in the Income War Tax Act itself.

A. It could be done.

Q. The point is that it has not been done. A. No, it has not been done.

BY MR. VAUGHAN:

Q. Would you say that that non-member business of your printing or insurance or coal business is more than 20 per cent? Is 20 per cent done with non-members -- 20 per cent of the amount done with member? A. In the case of farm supplies, taking that separately, I should think that we probably would do more than 20 per cent with non-members. I am told that we have no figures on it, exactly.

BY MR. PARKER:

Q. One other question: is there anything, any written document anywhere in your company's papers, from which it appears that there is an obligation on behalf of the company to pay its customers or patrons anything by way of return or rebate, or is it purely a matter which rests in the discretion of the directors, whether they pay any back or whether they do not? A. I will answer that in two ways.

Q. Yes, take your time and answer it as you wish.  
A. I was trying to get to the resolution, but you seem to want me to keep to the charter. But I would point out that the resolution is mandatory.



Q. The resolution of what? What resolution do you refer to? A. The charter gives the right.

Q. Yes, we have dealt with that. A. But the resolution passed in 1942 ---

Q. Is that attached to the by-laws? A. It was passed in 1942. And there the words "shall distribute" appear, as parliament has decreed, after the payment of interest on capital.

Q. Where do you find that? A. That is a resolution.

Q. You are just reading from the minutes of your company. A. Yes.

Q. It is not from the by-laws. A. If you will look at the charter you will see that there is a resolution. It is a resolution of the members, not a by-law.

Q. I shall read it:

"The directors of the company may from time to time, if so empowered by a resolution adopted at a general meeting of the company held either before or after the passing of this Act, direct that out of any moneys available for the payment of dividends, in the financial year, and after provision has been made for the payment of such dividend, if any, as is payable in respect of any shares entitled to a preference by way of dividend, there may be distributed such an amount or amounts as the directors may determine among the persons in either or both of the classes hereinafter defined and in the proportions hereinafter specified."

It is under that that you pass the resolution. A. Yes. You asked about a document ---





Q. What is the resolution passed in 1942? I believe I shut you off before you read it. A. Shall I read it now?

Q. If it is not too long, yes. A. The original resolution was passed in 1939 and amended in 1942.

Q. Yes. A. It states:

"Resolved, that in the event of the company having surplus funds in any year after:

- (1) paying a dividend on the paid-up capital stock of the company at a rate to be determined by the board of directors;
- (2) adding to the general reserve fund such amount as the directors deem advisable and carrying forward in surplus account such sum as the directors may deem necessary to provide for a dividend in any year when the earnings of such a year are not sufficient to pay such dividend.

The directors shall have power...."

That is the 1939 resolution ---

"...to distribute all or such portion of said surplus as the directors may determine, in such manner as they may determine, among persons who have sold or delivered to the company grain of such kind or kinds as the directors may from time to time determine.

Provided, further, that the directors may distribute all or such portion of the surplus earnings arising from the sale of cooperative supplies as the directors may determine among the persons purchasing such cooperative supplies."

The 1942 resolution was amended by striking out the words "shall have power" and substituting therefor the words



"shall distribute".

Q. It is still correct to say that it is under the control of the directors? They can rescind that resolution? A. No.

Q. They cannot? A. No.

Q. They cannot rescind it? A. No .

Q. Apart from that resolution, is there anything to which you can direct me which will indicate that a member or shareholder or patron has a right to his share of the dividends? A. Yes, there is by-law No.30 of the company.

Q. By-law No. 30? A. Yes, at page thirty-two, where it is stated at paragraph five that --

"That to class B shares there shall be attached the following rights:

(b) the right to share in the distribution of any profits distributed by way of dividend after the payment of any other dividends which are required to be or may be declared."

That is the only reference to it, I believe.

Q. That does not refer to patrons, does it? It refers only to those holding B shares, does it not? It does not refer to anyone, except B shareholders, does it? A. It refers to the B customer. Whoever is a B shareholder has that right.

Q. If he is a customer and has not got a B share --- A. He does not get a dividend.

Q. He does not get a dividend? A. No.

Q. Even by the grace of the company, let alone his having any right to demand it. A. He is not a member.

Q. I know that, but he is a patron. A. Yes.

Q. Then, concerning the section of the Act which I



wish to discuss with you, do you contend in your brief that your company is the type of cooperative which comes within the provision of section 4 (p)? A. We never did regard the company as coming under section 4 (p).

Q. You never did? A. No.

Q. And you have been paying taxes until the last year or so? A. We paid taxes--the statement shows that we paid them.

Q. You paid taxes? A. Yes, to date.

Q. 1940? A. 1944.

Q. You have set them aside; you have not actually paid them. A. Let me put you right on that. If you will turn to page twenty-four of the brief you will find that those taxes for 1940, 1941, 1942 and 1943 have been paid, and that a portion of 1944 have been paid. The usual instalments have been paid.

Q. I thought they were all held in reserve. A. No, we are only holding patronage dividends in reserve. Taxes have been paid.

Q. But they have been paid on the basis that the patronage dividends will be allowed as deductible.

A. No.

Q. And if they are not, you will have to pay more than you have been paying. A. No, I had better clear that up, I think.

Q. I wish you would. A. If you will turn back to page twenty-four of the brief and refer particularly to the fourth column, you will note a total of \$1,093,012 covering taxes from 1929 to 1944 inclusive. And with the exception of instalments not yet due ---

Q. What are you reading from? A. I am reading from the brief at page twenty-four.





Q. Yes, proceed. A. The \$1,093,012 has been paid, with the exception of the balance due on 1944. If we are not successful in our adventures into the Exchequer Court we will have to pay those additional amounts, as shown in the last column. In other words, our total tax, instead of being \$1,093,012, most of which is paid, will amount to \$2,636,508.

Q. Correct. A. And that is after allowing for the rebate of around \$300,000. I believe we get a refund of \$312,000. But the amount in the fourth column has been paid, with the exception of the small balance of 1944.

Q. I understand that is the amount that has been paid. But I am trying to find out how much you are holding back, pending settlement of this question.

A. Mr. Parker, ---

Q. You are holding back some out of each year, are you not? A. No, not one cent.

Q. Not a cent? A. No.

Q. Then, we will let it go at that. I think we find in your brief that you have set up a superannuation fund.

A. Yes, it is shown on the balance sheet.

Q. And you have a substantial amount in that fund?

A. Yes; it is not a fund, it is a contract we have with the dominion annuities branch.

Q. It costs the company a substantial sum of money? Substantial sums of money are taken out of this company's revenues to look after the annual contribution. A. Yes, the scheme is a dominion annuities scheme. The employees pay some and we pay some.

Q. And the people who participate in the benefits from the superannuation are not necessarily members of



the company?     A. Employees.

Q. They are employees, but not members of the company.     A. No, they are company employees.

Q. I understand that some counsel here present wish to ask some questions about the explicit recommendations contained in this brief, and therefore I shall not go further with you at this time. I shall leave it to them.

BY MR. HOWARD:

Q. Mr. Law, would you turn to page thirty-one of your brief. At the end of the first complete paragraph on that page you will find this sentence:

"Prevented during a period of years, by the tax situation, from paying out patronage dividends and thus bringing in new members...."

To what does that refer?     A. It means that we have not been able, due to the action of the taxing authorities, -- at least, we did not think it wise to pay out in 1942, 1943 and 1944 the dividends which we would have paid out, had it not been for that Ottawa ruling. Had we paid them out, inasmuch as they could be paid only to a customer member, and some of the customers were not members, they had to meet the requirements, namely that they had to be the holders of B shares. And if this interference had not occurred, those people would have automatically become B shareholders by reason of the fact that if a customer was entitled to a dividend of \$25, he would first have to buy a B share, and it would be done by allotting him that and paying him the difference.

Q. In other words ---     A. I have mentioned in our brief that it could be done only by a retroactive method of allotting B shares.

Q. In other words, you are impeded from getting





new members if you are unable to pay patronage dividends.

A. No, we are not.

Q. Then, what does it mean? A. Well, there is a war on, and motor cars, tires, gasoline and even paper are commodities that are in short supply. We have cut down tremendously during the war on all activities which were not actually connected with the war business of the company, the moving and handling of grain, and so on. If we could have the men, the gasoline, the tires and the paper, I suppose we could have sent out a bunch of canvassers and sold B shares. But, frankly, the directors did not think that that was a proper kind of thing to do in war time, and for that reason it was not done.

Q. And they did not come in automatically? A. No, they do not come in automatically. The odd man does, but not as a general rule. I should qualify that by saying that some people come in and take a few A and B shares.

Q. But if you had paid patronage dividends they would have come in automatically? A. Yes, they would have come in automatically.

Q. Then, you have included in your brief certain recommendations, and I should like to explore them. I turn to pages thirty-six and thirty-seven. I assume that in suggesting these you thought that you were proposing a scheme which would produce substantial competitive equality between cooperatives and their competitors.

A. We hoped that these suggestions might have been found helpful. But, as I said before, we are not pressing B. We do not like to see discrimination. We do not like to see this business of tax discrimination, wherever it may be found, and this is only a suggestion. It is an attempt to meet an awkward situation.



Q. Well, it appears in your brief, and some people might take it seriously. I should like to find out some of the reasons for the variations in language, and also some of the motives behind the suggestions. For example, I would ask you to look at A (2) and B (2). A. Yes.

Q. In A (2) you suggest that cooperatives be allowed, as a deductible expense --

"...for the calculation of income tax, dividends up to 5 per cent paid by a cooperative organized on a capital stock basis."

A. Yes

Q. To what would that 5 per cent be applied? Would it be applied to the par value of the shares? A. Yes, the dividends are usually paid on par value.

Q. When you come to the corporations which are not cooperatives you suggest dividends, and you use the words "actually paid" instead of just "paid", on capital employed, not to exceed 5 per cent. Why did you make a distinction between capital employed by ordinary companies, and capital stock for cooperatives? A. To take care of the watered stock situation.

Q. I do not know whether you were here or not, but as you know, "capital employed", and "capital stock" are not synonymous terms. A. I know that.

Q. You recall that the Saskatchewan Pool at one time calculated its equity as 50 cents on the dollar applied to its outstanding commercial and elevator reserves?

A. Yes.

Q. So that at that time there was no equity at all upon its capital stock. A. Yes.

Q. And it had no capital employed. Under your formula it would still be allowed to pay 5 per cent on



capital stock, whereas the ordinary corporation, in the same position, would not pay a cent. Do you realize that that would be the result from this suggestion?

A. The reason behind that is that you have some companies in this position, where the capital employed is in excess of the paid-up capital, and others ---

Q. And others where it is less. A. Yes, that is correct; you find the two varieties.

Q. But, as I understand it, irrespective of the amount of the capital employed of the cooperative, they can still pay 5 per cent on their capital stock, whereas, under your suggestion, the corporation could never pay 5 per cent on its capital stock, if its capital employed be less than the amount of its capital stock; you make a distinction there. A. Yes.

Q. You seem to discriminate. A. We felt that if 5 per cent was allowed on capital stock it should not exceed the actual amount of capital employed. That is just our idea.

Q. Your objective was to retain what you regard as equality. I am wondering why you made this distinction. A. Our objective is that, and if under expert examination that result is not brought about, we are open to correction.

Q. When did you propose, in your suggestion, that these amounts would be deductible? -- in the year of payment, or in the year of declaration? A. In item No.1, do you mean?

Q. No, in all of them. A. Our idea was that they should be paid within a reasonable time after the end of the fiscal year.

Q. So that if you had a patronage dividend or an





ordinary dividend paid to be declared in December, and paid in the following March, when would the tax exemption be permitted? Would it be in respect of the year of declaration or in respect of the year of payment?

A. I would say in respect of the year of declaration, provided you can show, when the assessment comes along five or six years later, as they seem to do now, that you did pay it out.

Q. So that under your theory it is conceivable that a cooperative might declare a dividend of either stock or patronage dividends in December, and not get around to paying them for seven or ten or fifteen months.

A. I think that would be a rather unreasonable length of time. I would say it would be within six months.

Q. And you agree that there will have to be some definition as to just what the word "paid" means.

A. Yes, I think so.

Q. When you refer to the payment of dividends by co-operatives you say "dividends up to 5 per cent paid". And when you speak of dividends to be allowed to ordinary corporations, you say "dividends actually paid on capital employed"; is there any distinction there?

A. There should be no distinction there.

Q. It was **just** an inadvertency. A. Yes.

Q. In the concession of patronage dividends of co-operatives, was it your idea that that should be allowed as an expense, only if they had paid it to members?

A. In our case we only pay it to members.

Q. You make a general suggestion. Would they be allowed to deduct as an expense for patronage dividends paid to members, or if they paid patronage dividends to non-members, would they be permitted to deduct that, too?



too? A. Under B, yes; in view of what we say in B we cannot do anything else.

Q. In other words, a cooperative, under your suggestion, could pay patronage dividends to anybody, and be totally exempt in respect of the amount paid, whether members or non-members. A. Of course that does not happen. The patronage dividend in cooperatives goes to members.

Q. But there have been suggestions here, or questions as to why you could not pay patronage dividends to non-members, too. I am inquiring about that. A. Under B, if a cooperative paid a dividend to a non-member, that would be something for the cooperative to decide, as to whether it should or should not, inasmuch as we recommend competitors should be allowed exemption on the same type of dividend; and in that case it obviously would not be paid to members of the company.

Q. So that a cooperative could dispense with the formality of restricting patronage dividends to members, and pay them to all and sundry, and be exempt from taxation on them. A. That is a matter for the cooperative to decide. In our case we do not do that.

Q. But you are making the general recommendation, and I am trying to find out how far they go. A. In practice what would happen would be that, provided the restrictive feature is permitted, of course cooperatives would only pay to members.

Q. In other words, if their taxes are collected in areas for past years --- A. I imagine, judging from the evidence which has already been heard by the commission, that a non-member who gets a patronage dividend is going to be made a member.





Q. But you are not restricting this suggestion to patronage dividends paid to members. A. No.

Q. Any patronage dividend they wish to pay to a customer will be exempt, is that correct? A. It would not apply in our case. I think the answer is yes, to what you have suggested.

Q. So that they could have 100 members and pay 1,000 patronage dividends; would that be quite permissible under your formula? A. If B is adopted, too, and if we want to bring about equity of treatment, you would have to do it that way, yes. It is equality of treatment we are trying to get at. And as I said before--and I am perhaps repeating myself--the suggestions in B are offered as suggestions which may not be any help at all, but ---

Q. But I have to proceed on the assumption that the Commission will take them seriously, and I should like to make sure that we all understand what they mean.

A. They were meant seriously, yes.

Q. You must have considered them. A. Yes, there was serious consideration, and it was a serious suggestion.

Q. I understand that; will you explain just exactly why in B you use the phraseology, -

"as to other corporations in direct and close competition with cooperatives."

How do you propose to distinguish between companies which are in close and direct competition, and others which may not be in close and direct competition; why do you use such restrictive language there? A. The trouble, as I see it, is to find some way of getting rid of at least the worst cases of discrimination which at present seem to exist. And they exist in certain fields, and



particularly in the grain business. As we say here, -  
"pending such time as the government can see its  
way clear to adopt the British system..."

We suggest that some board, such as a board of referees, might function as a kind of house of refuge, or something like that, to whom representatives of the companies in direct and close competition with the cooperative activities can show good cause for some treatment, pending some perhaps better and more suitable disposition of the problem to get some relief of some kind.

Q. In other words, this suggestion would only relieve the case where there was gross discrimination present.

A. Yes, and I suppose the worst cases to be found are found in the grain business of western Canada.

Q. Is it true -- and you will speak as an experienced business man -- is it true that any private company which makes a concession to customers has to make it to all its customers? A. I ---

Q. I will tell you what I am think about, and for the moment we will not speak about the grain business.

THE CHAIRMAN: The Criminal Code so provides, Mr. Howard.

MR. HOWARD: Yes, that is a fact; that is found in section 493 (a).

BY MR. HOWARD:

Q. Let us take the example which I have in mind. You have a wholesale cooperative--and we will leave the grain trade for the moment--you have a wholesale cooperative which is paying patronage dividends. A. Yes.

Q. It comes into the territory and competes with another wholesaler, who is not a cooperative. A. I understand.



Q. In order to meet the competition from the co-operative, the other wholesaler must match its concessions, must it not? A. Yes.

Q. And, as the chairman has pointed out, under section 493 (a) of the Criminal Code, they must give equivalent treatment to all customers. Therefore he must have met the competition of the cooperative, let us say in the city of Regina; even though they are operating in many other cities, they must do the same thing for their customers in those other cities, must they not? A. Well, I have not spent much time reading the Criminal Code. That is a matter I must leave to counsel, I think. The Criminal Code has not been a subject of study for me.

Q. Well, entirely apart from the Criminal Code, could you in your company pay a patronage dividend in Manitoba of three-quarters of a cent per bushel and pay a patronage dividend in Alberta of one-quarter of a cent per bushel? A. Could we do it?

Q. Yes.. A. Without getting into jail, do you mean?

Q. I am ignoring the Criminal Code, for the moment, and am asking my question only as a matter of business administration. Is it practicable for a company like yours to do that? A. Well, it is being done.

Q. I know, but does it make friends for you, and customers? Are the companies accustomed to doing that kind of thing? A. In the grain business?

Q. I do not care what business; take any business you like. A. I do not know; I would say that if competitive conditions in Alberta are such as to prevent any kind of a company from getting the same price for its product as it can get in Manitoba -- well, I do not





know very much about the ethics or etiquette in the whole-sale business or the retail business, or the stores business. However, I always thought that if a company operating in Manitoba, for example, and Alberta -- I do not believe that it would have to maintain prices, in view of freight rates, at exactly the same level in Alberta as it does in Manitoba.

Q. In respect of a big business operating in various areas, and meeting a cooperative in one area, and paying a patronage dividend in that area -- you think it could carry a business by not paying a patronage dividend in all the other areas where it operates? A. So far as we are concerned, we would not want to make any variation as between provinces in what we do. But I cannot see that a company operating in the three provinces and keeping separate profit and loss accounts for each province, with an understanding with its customers or clients, that they would have a distribution based upon the net result within that area; I think it would be prevented from doing that. I say that, because in Manitoba conditions might not be the same.

Q. It would be unusual, would it not, for one company. A. I do not know whether it would or not.

Q. Let us get back to the wholesaler, because that will give an idea what I am trying to get at. If a wholesaler meeting a wholesale cooperative adjusts its rate by paying patronage dividends to meet the competition of a cooperative, is it not likely that other wholesalers in competition with the first wholesaler would have to do likewise? They might not be in direct competition with the cooperative, but they will be in competition with the fellow who is not in competition



with the cooperative, and they will have to meet his competition. Is that not obvious? A. Yes.

Q. Therefore, how can you suggest this, and try to restrict it just to those corporations in direct and close competition with cooperatives? Is it not bound to sweep right across the country? I think you would have a gross discrimination. If it happened that just because a corporation is right next door to a cooperative, to meet the competition of that cooperative it pays a patronage dividend, the competitors in an adjoining area could not meet that competition and would have to do the same thing. And yet he is not in direct and close competition with the cooperative. How can you restrict by area of exemption? A. As a temporary expedient I think it might work. Of course the difficulties which you have mentioned might arise, and if they are likely to arise, then the suggestion perhaps has not very much merit; I do not know.

Q. Well, we are just probing to see if it has.

A. Yes, I thought it was worth trying.

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Q. What provokes that question is the fact that in the last paragraph of your brief you say:

"The extent of possible loss to the dominion treasury by the special treatment above suggested for cooperatives and corporations in direct competition therewith, is probably not great."

I suggest that you cannot limit exemptions to those in direct competition, to those who have to look after competitors and so on right across the country, in which case the loss might be very great? A. If that is so I presume there will be considerable opposition to the suggestion.

Q. Why did you take five per cent of the capital employed as the amount you would concede to corporations, having in mind that the Parliament of Canada under the Excess Profits Tax Act has fixed five per cent of the capital employed as the lowest rate that corporations should be allowed to earn on their capital employed in the case of depressed businesses and so forth? You will remember that the range was from five to ten per cent, but five per cent was the lowest rate on the capital employed? A. I do not know. We started with (A) and we seemed to be satisfied with --

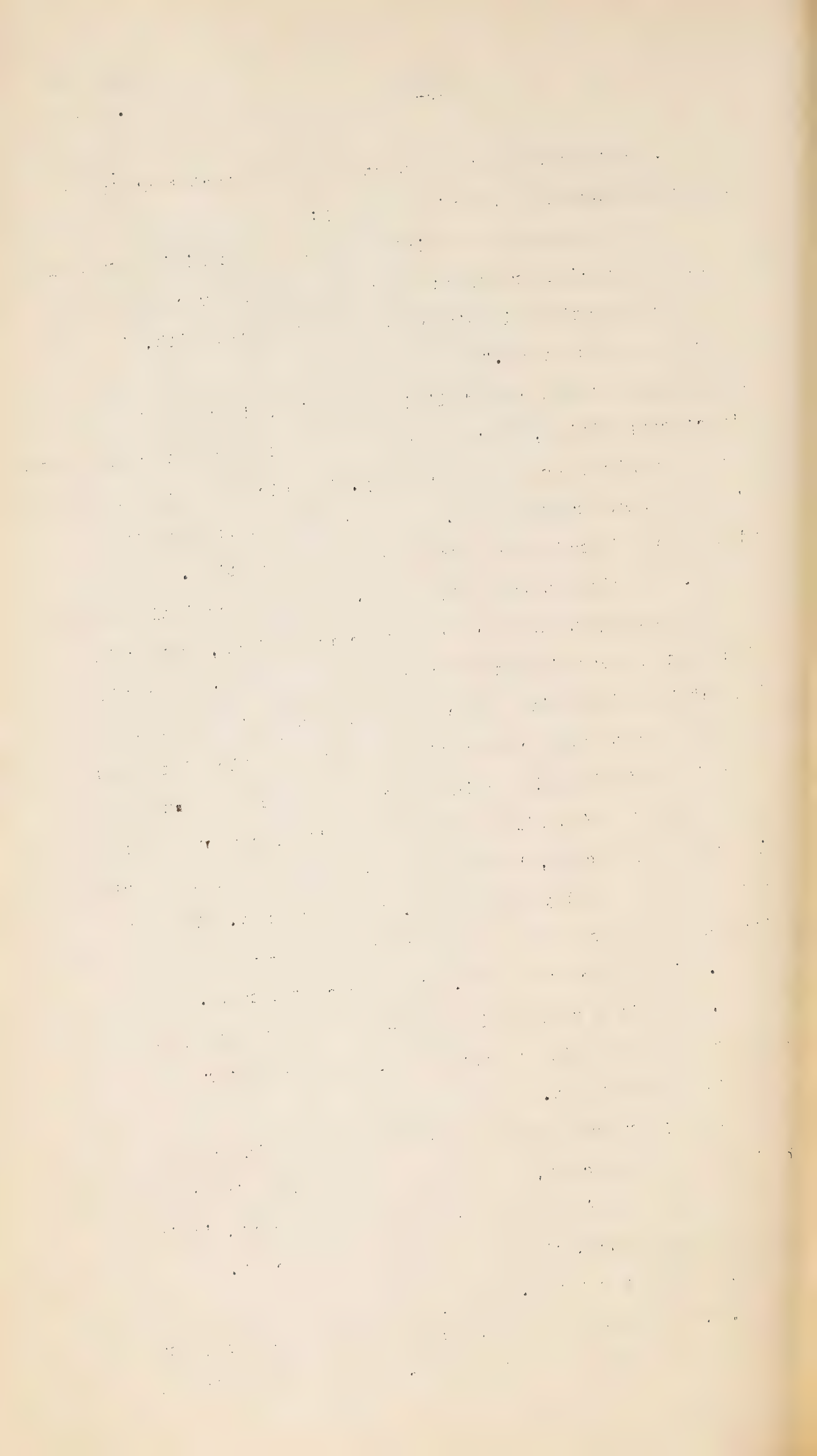
Q. Five per cent? A. Five per cent for us.

Q. It suited your capital set-up and therefore you assumed it would suit others? A. It is a matter of equality of treatment.

Q. If your shareholders had been brought in on the basis of five per cent, and others were brought in on the basis of five and a half per cent or six per cent, it is just their bad luck, they would get five per cent?

A. I do not get you.

Q. Apparently you have procured your money for your business on the basis of five per cent and apparently that



is sufficient? A. You are thinking of the stock?

Q. Yes; that is sufficient to meet the needs of your shareholders? A. Yes.

Q. Do you not think that the exemption for the corporation ought to have a relation to the amount, at least, of the fixed rates on their preferred and what they really need to pay a proper return to their shareholders?

A. I would not argue that, Mr. Howard.

Q. Five per cent fitted your picture and therefore you made it five per cent? A. I think it fits most cooperatives

-- Short recess --

BY MR. HOWARD:

Q. Mr. Law, by suggesting that competitors of cooperatives be conceded patronage dividends as an exemption I assume that you realize that competitors of coops must compete with them in the amount of patronage dividends they pay in order to retain their business? A. Yes. Obviously if one company pays two cents per bushel and another one only one cent, the farmers are apt to patronize the company paying two cents.

Q. If the Saskatchewan pool, for example, pays two cents per bushel you would be forced to meet that and would have to pay a similar amount? A. No, we do not pay out what we have not got.

Q. Of course not, but if you could not meet that what would be the effect on your business? A. It would be very detrimental if it continued for long. Of course, our farmers still would stay with their favourite company notwithstanding the fact that that situation existed, but as we have said it would be very detrimental if kept up? Q. Since the pools have no share capital to worry about they could afford to pay out their total earnings in



patronage dividends, could they not? A. They could, of course. Any company that has no interest obligation, no tax obligation could pay the whole shooting match out.

Q. What would be the plight of competitors of your company and the line elevator companies if the pools adopted the practice of paying out everything they earned in patronage dividends? A. The prospects would be fairly dismal.

Q. How would your company operate with the necessity of finding five per cent to start with on its capital stock?

A. In taxes?

Q. Yes. Q. We have already expressed our point.

Q. We are taking your formula. Where would the line elevator companies in a competitive condition of that kind find any money for their investors?

A. If they had to meet that competition?

Q. Yes. A. They would not, obviously. If a company which has enough money in its annual surplus to pay an equivalent amount per bushel as that of its competitor but has nothing left to pay its shareholders, unless they have the protection of the Dominion Parliament, as our people have, the shareholders would be left in the lurch.

Q. Take your own company. You say you cannot pay a patronage dividend until you have paid five per cent on certain stock? A. That is statutory.

Q. Therefore when you come to pay a patronage dividend part of your earnings has already gone? A. Yes.

Q. Therefore your patronage dividend must be reduced to that extent? A. Yes.

Q. Therefore your competitive capacity or competitive position in relation to the pools is handicapped to start with through the necessity of having to pay that five per cent, is it not? A. That is true, yes.





Q. Take the line elevator companies; they have to meet the competition of the pools and that competition consists of paying patronage dividends. That is what the competition would amount to? A. Yes.

Q. What is left for the investors? A. well, if in any one year your surplus is sufficient only for the purpose of meeting the patronage dividend of the competitor, there is nothing left for the investor.

Q. Nothing left? A. No.

Q. Therefore it may well be that your suggested deduction as an expenditure of dividend on capital stock might be purely illusory, there may be nothing left for capital stock?

A. There may not be.

Q. Is not that likely to happen? A. Yes.

Q. The pools have no capital stock to worry about; the cooperatives generally do not have to worry about capital stock as their capital stock is held by the members, and the members do not care whether they get a patronage dividend or a dividend on the capital stock, it is all the same to them?

A. That is true.

Q. Where does the private enterprise come out in a situation of that type? A. That is a problem for those who are up against it. I do not know that we can be the salvation of all those who are involved in this difficult situation.

BY THE CHAIRMAN:

Q. Is not your company involved in that same dilemma to a certain extent? A. Yes, and we will have to meet it as best we can, Mr. Chairman. I do not know that I can add anything. The situation is as Mr. Howard has described. If we have a certain sum available at the end of the year for distribution, which if distributed on a patronage basis



would provide patronage dividends equal to that of a non-interest-paying competitor, our patronage dividend would have to be less.

Q. Having regard to -- A. In view of our status.

Q. Having regard to the public interests, what would you suggest? You know that public interest is in the terms of our reference. What would you suggest?

A. To meet that particular situation?

Q. Yes. A. Well, it would be a bit drastic to cure.

Q. You would have to go beyond the conclusions contained in your brief? A. Yes. I suppose it could be enacted that such a situation could not arise. It could be prevented by legislative action.

BY MR. HOWARD:

Q. Let us assume that that type of competition does not develop. Let us assume that there have been several years in which losses have occurred and in which you have paid no patronage dividend. You have paid no patronage dividend or no share dividend. Did your suggestion involve that that private enterprise would pay only five per cent in that year despite the fact that it has missed two or three years, or do you think this five per cent should be an accumulative rate? A. Frankly we did not cover that point.

Q. But you can see that it is necessary? A. I see the point. I have no authority to say that it should be accumulative.

Q. If you are competing with people who pay patronage dividends they would not leave you enough to catch up, they would not leave you enough to pay fifteen per cent in one year on your stock when you are competing for business. It is not very likely that it would be your good fortune to be able to do that? A. Right.





Q. Do you anticipate in the grain business a re-development of highly competitive conditions? A. They have always been highly competitive when plenty of elevator space was available. After these stocks have been moved out I have no reason to suppose that those conditions will not return.

Q. In other words you have no reason to assume that the present abnormal conditions will persist?

A. I think it would be foolish to assume that.

Q. Therefore, in looking at your recommendations we must look at them in the light of highly competitive situation obtaining two, three or four years hence? A. I think it would be wise to do so.

Q. In your recommendations you agree that the competition is likely to take the form of competition in the amount of patronage dividends? Is not that a method of competition to lure the grower to your elevator?

A. Well, the payment of patronage dividends naturally is an attraction; it attracts business. It is a lure, if you like, and those who can pay will likely get the business and those who cannot pay will likely lose business.

Q. Now then, having suggested here that the cooperatives be exempt in respect to patronage dividends and dividends on capital stock which they pay, and that corporations in competition with them and which would be expected to pay patronage dividends and dividends on capital stock shall be exempted to that extent, would you have any reason to anticipate that organizations in competition with cooperatives and cooperatives would be paying any substantial amount of taxes to the dominion government? A. If patronage dividends are paid?

Q. If your recommendations are accepted for both groups would you expect that in cases where they are applicable there



would be any substantial tax payments made to the dominion treasury? A. Oh no.

Q. There would be none, would there? A. I would not say none, but obviously they would be reduced. There is no question about that. We have proved that.

Q. When competition forces the disbursement of these moneys in patronage dividends, what would be the incentive to a cooperative or to its competitor to retain any money in the treasury? Why would not they take out their earnings and pay them out? They get a tax exemption if they do that. If they keep them under this they would pay taxes, so you really are providing an incentive to pay out these moneys?

A. Yes, of course.

Q. Your suggestion involves an incentive to the disbursement of money in the form of patronage dividends and share dividends because by so doing no taxes are paid on those moneys? A. If they are not paid they are taxable under this plan.

Q. So as far as management is concerned there is an incentive to disburse? When they make those disbursements they pay no taxes and they win friends and customers?

A. Yes.

Q. Under your suggestion the amount of taxes paid by industries in that range would be very small?

A. Yes, that is made clear, I think, in the last paragraph.

Q. There is only one more point. It is suggested that you separate out those corporations which would be entitled to these exemptions by obtaining rulings from the Commissioner of Income Tax or -- A. The Board of Referees.

Q. -- the Board of Referees? A. Some kind of board.



Q. In other words, there would be an exercise of ministerial discretion somewhere along the line? A. Yes.

Q. Have you found that that operates satisfactorily where the law is not specific and where the minister has discretion? Have you found that that works satisfactorily in your dealings with the tax authorities on matters like depreciation and all these other things where the minister has discretion? A. I admit that if you are down here trying to get -- or elsewhere for that matter -- tax adjustments you have to fight pretty hard.

Q. So if any other formula than the formula of ministerial discretion could be evolved you would be in favour of it?

A. What is that?

Q. If any other formula than that of ministerial discretion could be evolved you would be in favour of it?

A. I would be in favour of any change here that might have better prospects of accomplishing something.

BY THE CHAIRMAN:

Q. The Board of Referees is an alternative suggestion? A. Yes.

MR. HOWARD: It is hard to visualize how they would function. I think that is all I have, Mr. Chairman.

BY MR. MILLIKEN:

Q. Let us suppose that instead of adopting your suggestion we tax the cooperatives the same as the private companies. What do you think would be likely to happen to the grain companies which are in competition? It is going to be kind of rough on them?

A. You mean?

Q. Mr. Howard has suggested, or you have demonstrated to Mr. Howard that if your plan were adopted it is going to be pretty rough on everyone except the cooperatives because





competition will have to be met. I am asking you to just forget about your proposal and consider that we are taxing the cooperatives exactly the same as the other people. What kind of competition would you think the cooperatives would be in the grain business? Mr. Howard says that they do not have to pay any dividends on capital stock and they do not need to pay patronage dividends at the end of the season. They can increase the price at the beginning of the season because they are not interested in making profits. All they want to do is to be sure that they balance out. What kind of competition do you think you would be up against then? Do you think it would be the same kind as you would have under your proposal? A. Well, it would be expressing my opinion.

Q. You have been expressing your opinion?

A. Opinions have been expressed before the commission, but if you tax the cooperative -- we say here that that is not feasible -- the result would be -- I am basing this on a statement already made, by I think your own client -- I do not know whether this is an answer to your question.

Q. If you do not care to answer, it is all right, Mr. Law.

A. As I understand the question you are asking me to suppose that we tax the cooperative and then you want me to say what kind of competition there would be. The president of the organization you represent has already said what he is going to do, and I suppose he means what he says. That is what we have to look forward to.

MR. MILLIKEN: That is all, thank you, Mr. Chairman.

BY MR. HOWARD:

Q. Mr. Law, you are an operator of a big business. Is it a simple matter to operate a business so it just comes out even? A. Are you serious about that?



Q. Yes. A. If you want an answer, Mr. Howard, it is in the negative.

Q. It is not easy? A. It is not easy.

Q. I did not think it was.

BY MR. PORTER:

Q. There is a question I would like to ask which Mr. Law may not be able to answer without reference to his records. It is not important for my purpose that it should be answered now, but I do think we will find it useful to have an answer on the record. The Gillespie Grain Company did business in the province of Alberta in the operation of a string of country elevators? A. Yes.

Q. It operated under John Gillespie who died? A. Yes.

Q. And you bought that business? A. Yes.

Q. Do you know off-hand how many country elevators you bought in the province of Alberta and at how many points they were in competition with the Alberta Wheat Pool? You may have to get those figures. A. I carry little things like that in my head most of the time. We bought 68. You wanted to know where we competed with your client?

Q. At how many points was there competition when you bought them? A. At thirty points, roughly.

Q. And that purchase was made in what year? A. Early 1943.

BY THE CHAIRMAN:

Q. When you say competition, do you mean they were operating at the same point? A. Yes.

BY MR. STEER:

Q. What sort of deal did you make when you got those Gillespie elevators? A. Well ---

Q. I am told that the year before he died John Gillespie would not have taken a million dollars for them, and that you





got them for half that amount? A. That is true. I saw Mr. Gillespie a year or two before and he wanted to sell but he would not listen to me unless I talked a million dollars, so we did not make a deal. But the executors of his estate were quite ready to sell at the price that has been mentioned.

Q. Perhaps those executors could see into the future?

A. I do not think they have regretted the deal.

MR. PARKER: Perhaps they had some accumulative profits.

BY MR. STEER:

Q. What effect had that purchase on your volume of business as compared with your overhead? A. Would you mind putting that again?

Q. I suggest to you that the acquisition of those 68 houses increased your volume very substantially without increasing your overhead? A. Oh, yes, it did not require any major additions to the head office staff or equipment.

Q. Those elevators were the first ones your company had bought for some time? A. Of that number at any one time.

Q. Pardon? A. Of that number.

Q. You had bought the odd one? A. Yes, we buy the odd one.

Q. Now then, with regard to the non-member business. You spoke of the difficulty of keeping track of that and at the same time you suggested that an estimate had been made in 1942. Is it true that the quota system under war conditions has resulted in the disruption of the usual relationship between your members and your company?

Q. Oh, yes, it has. I suppose it has affected every company.

Q. This morning you and I were not very happy about this question of allocation of surplus and I think I put some very leading questions to you. I am going to ask you now

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if you have any record of the attitude of your board of directors on that question of the allocation of surpluses?

A. I have. I should have referred to it this morning. However, my brief case was over there and when I was moved from that box to this one the brief case did not come with me. I have here a note that I should have used. I think I stated this morning that the board had made some decision. Here is the notation I made.

Q. Would you read into the record what your note is as to the attitude of your board toward this question?

A. In considering our brief, our directors were influenced by the company's experience of nearly forty years in the grain trade, an experience that has taken us through two world wars and two major depressions. We know something of the wide fluctuations in the business between years of very low earnings or losses and years of high earnings. Having regard to our other financial obligations, we would not care to embark upon any policy of withholding cash dividends and allocating surpluses, when it is not practicable to fix a definite time for repayment. Our directors preferred to leave any discussion of the subject of deferred dividends or allocated surpluses to those organizations more directly interested.

Q. My friend Mr. Parker seemed to think that this was not a very democratic organization because of the system of delegates that is provided for in your act of incorporation. I just call your attention to the fact that your brief states that there are 35,000 individual members; is that right?

A. Yes.

Q. Would it be practical to hold annual meetings and expect those 35,000 members to be present?

A. Absolutely impossible.



Q. The only other alternative is voting by proxy?

A. By delegates.

Q. By proxy?      A. By proxy.

Q. In which way do you think you get a better expression of opinion of your members, by the locals appointing delegates or by the individual member appointing a proxy?

A. By the delegate system undoubtedly.

Q. I take it that in the ordinary large corporation proxies generally go to the executive officers of the company?

A. Well, whenever I have got a request for a proxy that is how it is worded.

Q. In most cases they go to the executive officers of the company?      A. Yes.

Q. And I suppose in your meetings of the delegates the actions of the executive officers of the company are under review?      A. Yes.

Q. My friend Mr. Parker asked about the use of the word "profits"?      You, like my friend Mr. Porter, have not any objection to the use of that word.      A. It has been in every annual report we have ever put out.

Q. I am going to ask you this -- perhaps you do not know, but if you do perhaps you will tell the commission -- whether excess revenues over expenditures are described in the Industrial and Provident Societies Act of England in that way, or do you know?      A. I do not know definitely.

Q. With regard to your subsidiary. First of all, your insurance subsidiary. I take it it was only by the organization of that agency that you could save for your company and indirectly for the members of your company the cost of placing your insurance?      A. Yes.

Q. With regard to terminals; there appeared to be a little confusion there. By the way, you said that you





store grain for exporters? A. Yes.

Q. Am I right in thinking that the grain that you store for the exporter is grain that you have bought, or, that your company has bought at the country elevator and taken to the terminal? A. And sold.

Q. Yes, and sold. In other words, these terminals handle United Grain Growers' grain and United Grain Growers' grain only? A. No.

Q. To what extent? A. At times such as these when there is an accumulation of cars piling up at the head of the lakes the authorities can order the grain -- if you have grain of another company they can order it to your company if there is room to unload.

Q. Leaving these exceptional war-time conditions out of consideration, would my statement then be right?

A. Yes.

Q. With regard to keeping track of non-member business. The question of non-member business, I suggest to you, has very little relation to your approach to this whole question?

A. Quite:

Q. In your brief you say that you never did claim exemption under section 4(p)? A. Right.

Q. And it was thought that probably you could not claim such exemption? A. Yes.

Q. As I understand your position, you are not claiming exemption under section 4(p) but you want to be put on fair competition equality with those organizations whose competition you have to meet and who claim they are exempt?

A. Yes, that is exactly it.

Q. Then it was suggested that you do not segregate your non-member business? A. No, we have never done that.

Q. Are your books kept in such a way that if it were



thought necessary that non-member business should be calculated it could be done? A. It could be done. My chief accountant is here.

Q. Do you know whether other cooperatives have annuities and superannuation funds? A. I know that one has, because when they put that plan into effect we lent them copies of our plan. I think it was followed, but anyway I know that at least one has a plan. That is one other cooperative.

Q. These superannuation and pension funds are applicable to your employees? A. Yes.

Q. As far as I know there is no reason why that sort of activity should not be engaged in by cooperatives as well as by other corporations? A. I agree. I could not see the point of the question. We all seem to be providing these kinds of funds for pensions and so on.

Q. Do you know that under the United States system of cooperation patronage dividends are paid both to members and non-members and must be so paid according to the statute; I think that is right, but do you know?

A. I think it is right, but I am not sure. That is in the United States?

Q. Yes. A. I am not sure about that.

Q. Somebody asked about this five per cent rate. You spoke this morning of the company being an adaptation of the Rochdale system to western Canada and on page 17 of your brief you give a quotation from Elsie Gluck, which reads in part:

"Voting was on the principle of individual membership rather than of stock held; membership was open; dividends on capital were fixed or limited;"

As I understand it you got from parliament these amendments to your charter which insist that dividends be paid on your





capital stock before any patronage dividend could be declared?

A. Yes.

Q. Is that right? A. Yes.

Q. Then after that amendment was put through your board considered what that rate ought to be? A. Yes.

Q. I suggest to you that it was in line with that provision that I have just read, "Dividends on capital were fixed or limited"-- that that small rate of interest was fixed? A. That is so.

Q. On your share capital; what would you say to that?

A. I think our action was in accord with that principle.

Q. Now then there has been a good deal of discussion of your position with regard to the payment of these amounts analagous to patronage dividends. As you understand it, these payments are allowed in England, they are allowed to corporations of all sorts? A. Yes.

Q. The government has notified us in this country that as it now views the situation these dividends are not to be allowed as expenditures? A. Yes, we have been so advised.

Q. Your position is that you want to pay them and you have no objection if the government allows all other corporations to pay them? A. That is right.

Q. With regard to the effect on the revenues, your position is as stated in the last paragraph of the brief at page 37 where you state:

"It is important to bear in mind the extent to which the income of cooperatives may be deliberately reduced if patronage dividends are not allowed as deductible, as well as the extent to which the income of companies in competition with cooperatives might be reduced, if inequality of taxation is continued."

That represents your company's position? A. Yes, that is so.

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That is the sentence I was looking for when Mr. Milliken was asking me about that.

BY MR. HOWARD:

Q. Do you do export business? A. No.

THE CHAIRMAN: I assume that that concludes this brief, Mr. Steer?

MR. STEER: Yes, sir.

THE CHAIRMAN: Mr. Parker, what is proposed for the morning?

MR. PARKER: The line elevators.

THE CHAIRMAN: Does that suit Mr. Howard?

MR. HOWARD: Yes, thank you.

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The commission thereupon adjourned to meet on Tuesday at 10 a.m.

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